VO of Arizona, Inc.

Statement of Activities
Year Ended June 30, 2005

VO of Arizona, Inc.
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For the year ended June 30, 2005

PRICEWATERHOUSECOOPERS

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Report of Independent Auditors

To the Board of Directors
VO of Arizona, Inc.:

We have audited the accompanying statement of activities (as defined in the contract dated July 1, 2004 between VO of Arizona, Inc. (the "Company") and the Arizona Department of Health Services – Division of Behavioral Health Services (the "ADHS-DBHS") of the Company for the year ended June 30, 2005. This statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of activities is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of activities. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As more fully described in Note 1 to the statement of activities, the Company has included the activities before the incorporation of VO of Arizona, Inc., for the period from July 1, 2004 through July 11, 2004, in the accompanying statement of activities for the year ended June 30, 2005. The contract referred to in the first paragraph requires that such results of operations be excluded from the Company's statement of activities.

In our opinion, except for the effects of including the results of operations before incorporation of VO of Arizona, Inc. in the statement of activities as discussed in the preceding paragraph, the statement of activities referred to above presents fairly, in all material respects, the activities of the Company for the year ended June 30, 2005, as defined in the contract referred to in the first paragraph.

This report is intended solely for the information and use of the ADHS-DBHS, the State of Arizona and the Board of Directors and management of the Company, and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

September 7, 2005

VO of Arizona, Inc.
Statement of Activities
Year Ended June 30, 2005

		TXIX CHILD	TXIX CMDP	TXIX DD CHILD	NTXIX/XXI CHILD	TXXI CHILD	HB2003 CHILD	TXIX SMI	TXIX DD ADULT	NTXIX/XXI SMI	HIFA II SMI	TXXI ADULT	HB2003 SMI	TXIX GMHSA	HIFA II GMH	MENTAL HEALTH	SUBSTANCE ABUSE	PREVENTION INTERVENTION	PASARR	ADHS DOC	OTHER	SUB TOTAL	PROGRAM ADMIN & MGMT/GEN	TOTAL
REVENUES																								
401	Revenue Under ADHS Contract																							
a	ADHS Revenue	$ 68,220,102	$ 33,691,821	$ 5,098,790	$ 5,795,227	$ 4,275,101	$ 1,774,840	$ 178,348,855	$ 3,476,298	$ 79,686,137	$ 2,037,054	$ 176,208	$ 468,849	$ 70,479,147	$ 804,233	$ 2,202,505	$ 24,864,948	$ 6,104,465	$ 85,750	$ 1,837,677	$ -	$ 489,428,007	$ -	$ 489,428,007
b	ADHS Revenue - Qualifying Incentive Payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
402	Specialty & Other Grants*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
403	Client Fees (Co-pays)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
404	Third Party Recoveries	-	-	-	-	-	-	2,366	-	2,691	-	-	-	26	-	110	42	-	-	-	-	5,235	-	5,235
a	Medicare	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b	Other Insurance	-	-	-	-	-	-	337,189	-	245,515	-	-	-	2,261	-	9,221	714	-	-	-	-	594,900	-	594,900
405	Interest Income	-	-	-	-	-	-	24,165	-	24,366	-	-	-	-	-	1,507	201	-	-	-	-	50,239	-	50,239
406	Other Funding Sources - Non ADHS*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,285,320	1,285,320
407	Unrelated Business Activities*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	60,751	60,751	-	60,751
408	TOTAL REVENUE	68,220,102	33,691,821	5,098,790	5,795,227	4,275,101	1,774,840	178,712,575	3,476,298	79,958,709	2,037,054	176,208	468,849	70,481,434	804,233	2,213,343	24,865,905	6,104,465	85,750	1,837,677	60,751	490,139,132	1,285,320	491,424,452
EXPENSES																								
Service Expenses:																								
501	Treatment Services																							
a	Counseling																							
1	Counseling, Individual	10,432,591	3,470,295	452,421	591,753	856,141	-	6,228,673	76,023	1,946,587	99,266	41,361	-	7,571,787	98,706	95,927	1,764,431	-	-	-	-	33,725,962	-	33,725,962
2	Counseling, Family	6,332,182	1,746,734	320,671	293,149	521,569	-	208,802	1,075	101,840	2,780	6,623	-	297,064	6,870	5,718	8,221	-	-	-	-	9,853,298	-	9,853,298
3	Counseling, Group	449,596	107,227	7,001	44,426	43,135	-	849,993	9,889	297,978	10,181	7,392	-	3,233,918	15,130	34,287	1,243,368	-	-	-	-	6,353,521	-	6,353,521
b	Consultation, Assessment & Specialized Testing	4,037,439	607,491	192,023	107,073	328,986	-	1,579,291	38,835	832,967	13,058	29,104	-	4,754,554	63,689	258,324	950,251	-	-	-	-	13,793,085	-	13,793,085
c	Other Professional	40,463	259	-	541,215	2,542	-	29	924	1,366,140	603	-	-	-	1,924	67,498	2,036,140	-	-	-	-	4,057,737	-	4,057,737
d	Total Treatment Services	21,292,271	5,932,006	972,116	1,577,616	1,752,373	-	8,866,788	126,746	4,545,512	125,888	84,480	-	15,857,323	186,319	461,754	6,002,411	-	-	-	-	67,783,603	-	67,783,603
502	Rehabilitation Services																							
a	Living Skills Training	1,661,627	624,823	189,509	41,945	53,964	-	5,589,764	151,046	1,720,646	59,103	3,575	-	433,723	5,449	3,706	8,208	-	-	-	-	10,547,088	-	10,547,088
b	Cognitive Rehabilitation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
c	Health Promotion	9,418	4,059	20,798	51	740	-	280,594	6,074	84,003	5,917	-	-	75,057	74	590	3,598	-	-	-	-	490,973	-	490,973
d	Supported Employment Services	7,307	11,446	407	299	-	-	3,948,777	317,667	1,493,701	248,718	889	-	588,818	7,262	444	35,052	-	-	-	-	6,660,787	-	6,660,787
e	Total Rehabilitation Services	1,678,352	640,328	210,714	42,295	54,704	-	9,819,135	474,787	3,298,350	313,738	4,464	-	1,097,598	12,785	4,740	46,858	-	-	-	-	17,698,848	-	17,698,848
503	Medical Services																							
a	Medication Services	1,198	-	-	-	-	-	882,605	24,488	242,764	7,831	4,377	-	2,733,851	5,999	7,330	1,381,096	-	-	-	-	5,291,539	-	5,291,539
b	Medical Management	2,900,952	445,548	339,335	118,474	235,887	-	6,742,441	194,654	3,187,523	82,516	25,395	-	3,218,964	73,860	53,277	173,209	-	-	-	-	17,792,035	-	17,792,035
c	Laboratory, Radiology & Medical Imaging	65,697	10,147	7,102	2,987	4,394	-	627,844	19,525	359,096	8,885	1,408	-	214,838	2,308	3,699	32,140	-	-	-	-	1,360,070	-	1,360,070
d	Electro-Convulsive Therapy	14,356	-	-	-	-	-	122,842	-	169,771	-	-	-	5,978	-	-	189	-	-	-	-	313,136	-	313,136
e	Total Medical Services	2,982,203	455,695	346,437	121,461	240,281	-	8,375,732	238,667	3,959,154	99,232	31,180	-	6,173,631	82,167	64,306	1,586,634	-	-	-	-	24,756,780	-	24,756,780
504	Support Services																							
a	Case Management	194,335	-	5,898	26,684	2,574	-	53,646,547	732,633	24,957,350	519,392	14,443	-	5,532,916	85,557	1,689,425	484,356	-	-	-	-	87,892,110	-	87,892,110
b	Personal Assistance	748,893	462,592	375,116	38,602	32,968	-	7,997,732	283,856	1,873,492	18,275	59	-	544,820	50	-	160,977	-	-	-	-	12,537,432	-	12,537,432
c	Family Support	2,198,622	714,290	202,779	77,567	105,374	-	29,290	2,160	14,108	13	-	-	12,691	78	123	627	-	-	-	-	3,357,922	-	3,357,922
d	Peer Support	246,339	158,960	14,054	18,038	8,521	-	785,359	16,752	267,506	11,884	67	-	143,255	1,565	1,682	36,404	-	-	-	-	1,710,386	-	1,710,386
e	Therapeutic Foster Care Services	1,311,954	6,506,213	-	4,769	-	-	248,022	-	42,115	-	-	-	12,988	-	-	-	-	-	-	-	8,126,061	-	8,126,061
f	Respite Care	2,676,708	564,195	66,140	55,941	70,905	-	2,002	-	-	-	-	-	2,628	-	-	-	-	-	-	-	3,438,519	-	3,438,519
g	Housing Support	-	-	-	-	-	-	-	-	2,617,274	14,677	-	-	-	2,196	12,850	552,287	-	-	-	-	3,199,284	-	3,199,284
h	Interpreter Services	-	-	-	64,994	-	-	-	-	41,251	-	-	-	-	1,400	19,084	9,580	-	-	-	-	136,309	-	136,309
i	Flex Fund Services	-	-	-	341,074	-	-	-	-	1,306,167	-	-	-	-	-	16,610	166,659	-	-	-	-	1,830,510	-	1,830,510
j	Transportation	896,583	233,581	15,616	35,691	47,016	-	3,170,454	92,214	1,075,334	18,423	1,676	-	1,607,426	7,005	45,761	198,961	-	-	-	-	7,445,741	-	7,445,741
k	Block Purchase NTXIX Consumer Drop In Center	-	-	-	-	-	-	872,908	-	358,464	-	-	-	-	-	-	92,490	-	-	-	-	1,323,862	-	1,323,862
l	Total Support Services	8,273,434	8,639,831	679,603	683,360	267,358	-	66,752,314	1,127,615	32,553,061	582,664	16,245	-	7,856,924	97,851	1,785,535	1,702,341	-	-	-	-	130,998,136	-	130,998,136
505	Crisis Intervention Services																							
a	Crisis Intervention - Mobile	1,519,163	1,348,656	238,291	479,655	65,010	-	2,640,809	234,288	850,770	59,590	11,777	-	2,233,186	21,180	522,448	304,131	-	-	-	-	10,519,954	-	10,519,954
b	Crisis Services	221,977	37,236	18,299	20,768	15,041	-	1,487,931	32,902	475,262	11,325	7,343	-	2,479,630	13,015	277,996	1,240,741	-	-	-	-	6,339,486	-	6,339,486
c	Crisis Phones	9,447	-	291	1,349	115	-	2,719,689	34,983	1,305,533	-	637	-	259,545	-	81,213	28,026	-	-	-	-	4,440,828	-	4,440,828
d	Total Crisis Intervention Services	1,750,587	1,385,892	256,881	492,772	80,166	-	6,848,429	302,173	2,631,565	70,915	19,757	-	4,972,361	34,195	881,657	1,572,898	-	-	-	-	21,300,268	-	21,300,268
506	Inpatient Services																							
a	Hospital																							
1	Psychiatric (Provider Types 02 & 71)	2,490,092	629,126	114,066	35,021	212,432	-	15,134,836	251,616	7,688,799	120,249	14,873	-	3,614,738	8,489	320,083	63,371	-	-	-	-	30,697,791	-	30,697,791
2	Detoxification (Provider Types 02 & 71)	-	-	-	-	-	-	68,888	-	34,150	-	-	-	125,438	-	-	7,761	-	-	-	-	236,237	-	236,237
b	Sub acute Facility																							
1	Psychiatric (Provider Types B5 & B6)	145,220	605,142	-	-	-	-	5,037	-	-	-	-	-	5,232	-	-	-	-	-	-	-	760,631	-	760,631
2	Detoxification (Provider Types B5 & B6)	2,228	-	-	-	-	-	168,403	-	41,392	-	1,453	-	1,616,759	2,379	9,951	1,260,362	-	-	-	-	3,102,927	-	3,102,927
c	Residential Treatment Center (RTC)																							
1	Psychiatric - Secure & Non-Secure (Provider Types 78,B1,B2,B3)	5,954,359	5,403,615	-	163,473	133,428	-	1,372,256	8,360	744,800	1,354	-	-	281,795	2,316	39,530	15,203	-	-	-	-	14,120,489	-	14,120,489
2	Detoxification - Secure & Non-Secure (Provider Types 78,B1,B2,B3)	396	2,917	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,313	-	3,313
d	Inpatient Services, Professional	382,474	89,176	15,957	14,524	26,942	-	573,654	8,776	212,349	1,525	1,313	-	439,763	3,316	77,829	31,147	-	-	-	-	1,878,745	-	1,878,745
e	Total Inpatient Services	8,974,769	6,729,976	130,023	213,018	372,802	-	17,323,074	268,752	8,721,490	123,128	17,639	-	6,083,725	16,500	447,393	1,377,844	-	-	-	-	50,800,133	-	50,800,133
507	Residential Services																							
a	Level II Behavioral Health Residential Facilities	3,165,864	4,832,524	83,404	80,936	86,869	-	10,289,179	86,221	2,847,930	8,080	1,340	-	5,424,462	3,779	11,384	1,045,931	-	-	-	-	27,967,903	-	27,967,903
b	Level III Behavioral Health Residential Facilities	599,424	1,143,151	-	4,996	-	-	2,654,832	33,916	508,330	-	-	-	90,249	-	-	-	-	-	-	-	5,034,898	-	5,034,898
c	Room and Board	-	-	-	539,765	-	-	-	-	1,365,294	-	-	-	-	-	48,301	1,725,859	-	-	-	-	3,679,219	-	3,679,219
d	Total Residential Services	3,765,288	5,975,675	83,404	625,697	86,869	-	12,944,011	120,137	4,721,554	8,080	1,340	-	5,514,711	3,779	59,685	2,771,790	-	-	-	-	36,682,020	-	36,682,020
508	Behavioral Health Day Program																							
a	Supervised Day Program	249,872	35,367	3,260	10,016	18,798	-	1,438,296	13,911	497,387	9,355	40	-	101,846	87	1,029	346	-	-	-	-	2,379,610	-	2,379,610
b	Therapeutic Day Program	1,953,391	421,323	10,463	71,758	84,030	-	3,188,308	1,131	946,360	30,852	-	-	3,019,355	26,847	34,282	1,660,869	-	-	-	-	11,448,969	-	11,448,969
c	Medical Day Program	9,045	-	982	-	1,587	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	11,614	-	11,614
d	Total Behavioral Health Day Program	2,212,308	456,690	14,705	81,774	104,415	-	4,626,604	15,042	1,443,747	40,207	40	-	3,121,201	26,934	35,311	1,661,215	-	-	-	-	13,840,193	-	13,840,193
509	Prevention Services																							
a	Prevention	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,431,976	-	-	-	5,431,976	-	5,431,976
b	HIV	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	936,524	-	-	-	-	936,524	-	936,524
c	Total Prevention Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	936,524	5,431,976	-	-	-	6,368,500	-	6,368,500
510	Medication																							
a	Medication Expense	8,225,142	1,156,749	1,604,887	97,933	929,610	-	25,111,855	3,305,067	14,231,980	440,849	58,627	-	13,098,626	76,334	165,797	54,979	-	-	-	-	68,558,435	-	68,558,435
b	Less Pharmacy Rebate Received	(719,561)	(21,614)	(48,396)	(10,763)	(49,321)	-	(1,768,953)	(176,079)	(1,064,704)	(52,625)	-	-	(1,038,162)	-	(16,018)	(5,268)	-	-	-	-	(4,973,464)	-	(4,973,464)
c	Pharmacy Rebate Related Expense	246,708	7,521	16,840	2,779	17,003	-	585,298	61,963	331,397	18,311	-	-	340,225	-	5,068	1,798	-	-	-	-	1,634,911	-	1,634,911
d	Total Medication Services	7,752,289	1,142,656	1,573,331	89,949	897,292	-	23,928,200	3,188,951	13,498,673	406,535	58,627	-	12,400,689	76,334	154,847	51,509	-	-	-	-	65,219,882	-	65,219,882
511	Other ADHS Service Expenses Not Reported Above*	-	-	-	-	-	1,966,000	-	-	-	-	-	398,936	-	-	-	-	-	79,319	-	-	2,444,255	-	2,444,255
512	ADHS/DOC COOL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,684,584	-	1,684,584	-	1,684,584
513	Subtotal ADHS Service Expenses	58,681,501	31,358,749	4,267,214	3,907,942	3,856,260	1,966,000	159,484,287	5,862,870	75,373,126	1,770,587	233,772	398,936	63,078,163	536,864	3,895,028	17,710,024	5,431,976	79,319	1,684,584	-	439,577,202	-	439,577,202
520	Service Expenses from Non ADHS Sources*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
525	Total Service Expense	58,681,501	31,358,749	4,267,214	3,907,942	3,856,260	1,966,000	159,484,287	5,862,870	75,373,126	1,770,587	233,772	398,936	63,078,163	536,864	3,895,028	17,710,024	5,431,976	79,319	1,684,584	-	439,577,202	-	439,577,202
Administrative Expenses:																								
601	Salaries	1,442,753	703,272	109,172	121,494	90,792	-	3,777,004	73,799	1,685,905	43,742	3,729	-	1,492,580	17,085	46,598	527,016	129,264	1,809	38,924	-	10,304,938	-	10,304,938
602	Employee Benefits	425,791	207,552	32,219	35,856	26,795	-	1,114,684	21,780	497,551	12,909	1,101	-	440,496	5,042	13,752	155,535	38,149	534	11,487	-	3,041,233	-	3,041,233
603	Professional & Outside Services	982,290	478,818	74,329	82,719	61,815	-	2,571,550	50,246	1,147,838	29,781	2,539	-	1,016,214	11,632	31,726	358,816	88,009	1,231	26,501	-	7,016,054	-	7,016,054
604	Travel	28,636	13,959	2,167	2,411	1,802	-	74,967	1,465	33,462	868	74	-	29,625	339	925	10,460	2,566	36	773	-	204,535	-	204,535
605	Occupancy	167,462	81,629	12,672	14,102	10,538	-	438,400	8,566	195,684	5,077	433	-	173,245	1,983	5,409	61,171	15,004	210	4,518	-	1,196,103	-	1,196,103
606	Depreciation	247,285	120,539	18,712	20,824	15,562	5,133	647,371	12,649	288,961	7,497	639	1,356	255,825	2,928	7,987	90,330	22,156	310	6,672	-	1,772,736	-	1,772,736
607	All Other Operating*	1,836,188	895,052	138,942	154,625	115,550	101,358	4,806,982	93,924	2,145,647	55,670	4,746	26,775	1,899,603	21,744	59,305	670,732	164,514	2,302	49,539	-	13,243,198	-	13,243,198
608	Subtotal ADHS Administrative Expenses	5,130,405	2,500,821	388,213	432,031	322,854	106,491	13,430,958	262,429	5,995,048	155,544	13,261	28,131	5,307,588	60,753	165,702	1,874,060	459,662	6,432	138,414	-	36,778,797	-	36,778,797
650	Non ADHS Administrative Expenses*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
651	Unrelated Admin. Expense*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	449,858	449,858
652	Subtotal Administrative Expense	5,130,405	2,500,821	388,213	432,031	322,854	106,491	13,430,958	262,429	5,995,048	155,544	13,261	28,131	5,307,588	60,753	165,702	1,874,060	459,662	6,432	138,414	-	36,778,797	449,858	37,228,655
701	Unrelated Business Expenses*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
790	Income Tax Provisions																							
a	ADHS Income Tax Provision	1,752,077	(66,674)	176,219	578,403	38,151	(118,303)	2,158,713	(1,052,869)	(669,234)	44,086	(28,150)	16,607	832,032	82,122	(738,596)	2,098,924	84,591	-	5,834	-	5,193,933	-	5,193,933
b	Non ADHS Income Tax Provision	-	-	-	-	-	-	145,488	-	109,029	-	-	-	915	-	4,335	383	-	-	-	24,146	284,296	332,060	616,356
799	Subtotal Income Tax Provision	1,752,077	(66,674)	176,219	578,403	38,151	(118,303)	2,304,201	(1,052,869)	(560,205)	44,086	(28,150)	16,607	832,947	82,122	(734,261)	2,099,307	84,591	-	5,834	24,146	5,478,229	332,060	5,810,289
800	TOTAL EXPENSES	65,563,983	33,792,896	4,831,646	4,918,376	4,217,265	1,954,188	175,219,446	5,072,430	80,807,969	1,970,217	218,883	443,674	69,218,698	679,739	3,326,469	21,683,391	5,976,229	85,751	1,828,832	24,146	481,834,228	781,918	482,616,146
801	NET INCOME (LOSS)	$ 2,656,119	$ (101,075)	$ 267,144	$ 876,851	$ 57,836	$ (179,348)	$ 3,493,129	$ (1,596,132)	$ (849,260)	$ 66,837	$ (42,675)	$ 25,175	$ 1,262,736	$ 124,494	$ (1,113,126)	$ 3,182,514	$ 128,236	$ (1)	$ 8,845	$ 36,605	$ 8,304,904	$ 503,402	$ 8,808,306

*Disclose on Schedule A

1. Description of Business

Effective July 12, 2004, VO of Arizona, Inc. (the "Company") was incorporated in the State of Arizona. On that date, the assets and liabilities of the Arizona Division of ValueOptions, Inc. (the "Division") were transferred to the Company and the Division's contract with the Arizona Department of Health Services – Division of Behavioral Health Services ("ADHS – DBHS") (the "Contract") was legally assigned to the Company. VO of Arizona, Inc. is a wholly-owned subsidiary of ValueOptions, Inc. ("ValueOptions"), a Virginia corporation. ValueOptions is a wholly-owned subsidiary of FHC Health Systems, Inc. ("FHC"), also a Virginia corporation.

FHC and ValueOptions report on a calendar year basis. The Company reports on a June 30 fiscal year-end to coincide with the fiscal year of the State of Arizona and the terms of the Contract. All the revenues, expenses, assets and liabilities of the Company are directly attributable to the Contract. The accompanying 2005 statement of activities of the Company include the results of operations of the Contract from July 1, 2004 through June 30, 2005. The revenue under the Contract, total expenses and net income (loss) for the period from July 1, 2004 through July 11, 2004 that were prior to the incorporation of the Company were approximately as follows:

	Revenue Under the Contract	Total Expenses	Net Income (Loss)
TXIX Child	$ 1,692,832	$ 1,760,817	$ (67,985)
TXIX CMDP	870,676	841,277	29,399
TXIX DD Child	75,750	73,191	2,559
NTXIX/XXI Child	221,217	227,678	(6,461)
TXXI Child	126,277	127,274	(997)
HB2003 Child	41,482	40,663	819
TXIX SMI	4,788,236	4,652,724	135,512
TXIX DD Adult	95,070	129,863	(34,793)
NTXIX/XXI SMI	2,343,903	2,264,358	79,545
TXXI HIFA II SMI	53,373	41,705	11,668
TXXI Adult	4,965	17,999	(13,034)
HB2003 SMI	26,044	25,530	514
TXIX GMH/SA	1,888,817	1,812,064	76,753
TXXI HIFA II GMH	22,161	15,529	6,632
NTXIX GMH	65,353	113,787	(48,434)
NTXIX/XXI Substance Abuse	726,704	606,093	120,611
NTXIX/XXI Prev/Int	178,040	176,768	1,272
PASAAR	2,963	2,963	-
DOC	56,164	52,736	3,428
Other	1,133	432	701
Management & General	7,132	4,263	2,869
Total	$ 13,288,292	$ 12,987,714	$ 300,578

The Company provides managed behavioral healthcare services to Maricopa County Medicaid ("Title XIX"), Non-Medicaid ("Non-Title XIX"), and KidsCare ("Title XXI") beneficiaries under a contract with the ADHS-DBHS. The Company also provides managed behavioral healthcare services under the Contract to qualifying adults and children in Maricopa County under special funding from the House Bill 2003 tobacco litigation settlement ("HB2003"). The Company also provides managed behavioral healthcare services to capitated adults under a special Healthcare Insurance Flexibility Accounting ("HIFA II") waiver funded from excess KidsCare funding.

The original term of the Contract was three years, commencing on September 19, 1998 and continued through June 30, 2001 with two additional one-year options for renewal, both of which were executed. On July 1, 2003, there was a separate one-year contract executed with no option to renew. In February 2004, the ADHS-DBHS awarded ValueOptions a new three-year contract, effective July 1, 2004, with two additional one-year options for renewal. The Contract was subsequently assigned to the Company as described above.

2. Summary of Significant Accounting Policies

Basis of Accounting
The accompanying financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of Presentation
The Company follows the ADHS-DBHS Financial Reporting Guide for Regional Behavioral Health Authorities and Tribal Regional Behavioral Health Authorities with an effective date of July 1, 2003 (the "Reporting Guide"). The Reporting Guide contains prescribed reporting guidelines for the preparation of the accompanying statement of activities. In accordance with these guidelines the Company records revenues and expenses in columns ("Fund Sources") representing programs administered by the ADHS-DBHS. In addition, the Company records service expense in rows ("Types of Service") based on Exhibit A of the Reporting Guide.

Contract Revenue
The Company receives substantially all of its revenue from the Contract with the ADHS-DBHS. Contract revenues include funds for behavioral healthcare services and prevention programs for youth and seriously mentally ill ("SMI") adult and substance abuse populations under four major types of revenue sources: Title XIX, Title XXI, Non-Title XIX, and HB2003. Contract revenue is recognized in the period for which the Company is obligated to provide covered services. Contract revenue is limited by the terms of the Contract to a maximum profit percentage, as defined. Contract revenue that cannot be recognized due to these profit limits (4% on Title XIX, Title XXI, and Non-Title XIX, and 8% on HB2003 for combined administrative expense and profit) is deferred until future periods.

Title XIX Revenue
The Contract with the ADHS-DBHS requires the Company to provide behavioral healthcare services to all eligible enrollees within its geographic service area. Under this agreement, the Company receives monthly capitation payments from the ADHS-DBHS based on a capitated rate and the number of Title XIX Arizona Health Care Cost Containment System ("AHCCCS") enrollees eligible for covered services during that month. In addition, the Company also receives revenue for Preadmission Screening and Resident Review ("PASARR") screenings on a fee-for-service basis from the ADHS-DBHS.

Title XXI Revenue
The Contract with the ADHS-DBHS requires the Company to provide behavioral healthcare services to all eligible enrollees within its geographic service area. Under this agreement, the Company receives monthly capitation payments from the ADHS-DBHS based on a capitated rate and the number of Title XXI AHCCCS enrollees eligible for covered services during that month.

Non-Title XIX Revenue
The Contract with the ADHS-DBHS provides for payment to the Company at a monthly rate equal to one-twelfth of specified annual contract maximums under the ADHS-DBHS Non-Title XIX programs. These programs provide behavioral healthcare services to lower income uninsured or underinsured individuals not eligible for behavioral healthcare coverage under Title XIX or Medicare. Non-Title XIX programs are funded through a combination of federal behavioral healthcare block grant funds, State of Arizona funds and Maricopa County funds administered by the ADHS-DBHS.

HB2003 Revenue
The Contract with the ADHS-DBHS requires the Company to provide behavioral healthcare services under special funding from the tobacco litigation settlement. Revenue is recognized using a percentage of completion method based on program milestones as prescribed by the ADHS-DBHS. These programs serve adults and children with serious mental illness and are to be used to provide community housing, vocational rehabilitation and other recovery support services designed to assist beneficiaries in achieving a high level of self-sufficiency and attain their desired goals. Programs related to these funds commenced January 1, 2001 and all funds for adults were required to be expended by June 30, 2005.

Other Revenue
The Company records management fee revenue from Casa Buena, Inc. ("Casa Buena") in the Other Fund Source (see Note 5). Interest income on the Company's investments, cash, and cash equivalents is recorded in Program Administration and Management & General. These revenues are not included in the calculations of profit limitations

Services Expense
Program services are purchased under fee-for-service or block purchase arrangements. Fee-for-service contract expenses are accrued as incurred. Program services provided under block purchase arrangements are accrued based upon contract terms. From time-to-time, the Company amends its provider contracts. The effects of these amendments are recorded in the period in which the amendment was executed.

Service expense is recorded in each Fund Source as follows:

- *Block Purchase Arrangements*
  The Company contracts with its providers under block purchase arrangements for services provided to consumers meeting the eligibility requirements for each Fund Source with the exception of Title XIX Developmentally Disabled ("DD") Child, Title XIX DD Adult, Title XXI HIFA II General Mental Health ("GMH"), Title XXI HIFA II SMI, and ADHS - Department of Corrections ("DOC"). Consumers eligible for services under these Fund Sources are contracted for under block purchases for all other Fund Sources. Service expense allocated to these Fund Sources is estimated based on available eligible consumers' utilization related to the year ended June 30, 2005. Service expense is recorded in all other Fund Sources based on the explicitly contracted amounts in the block purchase arrangements after giving effect to the allocations described above.

- *Fee-for-Service Arrangements*
  The Company records service expense under fee-for-service arrangements (including pharmacy claims) based on actual and estimated services rendered to consumers meeting the eligibility requirements for each Fund Source.

- *Services Provided Directly by the Company*
  The Company records Case Management and Crisis Phones services provided directly by the Company in each Fund Source based on the proportion of consumers receiving these services that meet the eligibility requirements for each Fund Source. All other services provided by the Company are allocated to Fund Sources based on revenue.

- *Pharmacy Sales Incentives*
  The Company includes reimbursements received under pharmacy contracts with suppliers in Pharmacy Sales Incentives. The Company records these incentives in each Fund Source based on the actual utilization of the medications to which the incentive arrangements relate.

The Company primarily allocates total service expense to Types of Service within each Fund Source using the ratio of consumer encounter values received for each Type of Service to total consumer encounter values received for each Fund Source. Service expense allocated to the Types of Service is estimated based on available eligible consumers' utilization related to the year ended June 30, 2005. Case Management, Block Purchase NTXIX Consumer Drop-In Center, Crisis Phones, Prevention, HIV, and Medications service expense are reflective of the actual expense incurred and excluded from the allocation process described above.

For HB2003 Child, HB2003 SMI, PASARR, and ADHS-DOC Funding Sources, the Company reports service expense in total only.

Estimation Process
The preparation of the statement of activities requires management to make estimates and assumptions that affect amounts reported in the statement of activities and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

The Company uses a variety of methods to estimate the unpaid service expense including authorizations for services to be provided, payments to be made under contract arrangements currently in force, and correspondence with significant providers to ascertain the level of care being provided to beneficiaries for which a claim has not yet been submitted.

Total service expense includes estimates of amounts due on reported claims and claims that have been incurred but were not reported as of June 30, 2005. These expenses represent the Company's best estimate of amounts that are reasonable and adequate to discharge the Company's obligations for claims incurred but unpaid as of June 30, 2005. Such estimates are however subject to a significant degree of inherent variability. Estimates are continually reviewed and adjusted as necessary as experience develops and new information becomes known; such adjustments are included in current operations.

For the year ended June 30, 2005, service expense decreased approximately $422,000 related to such revisions and was recorded as follows:

Title XIX Child	$ 121,886
Title XIX CMDP	80,563
Title XIX DD Child	2,480
Non-Title XIX Child	8,551
Title XXI Child	2,849
Title XXI HIFA GMH	316
Title XIX SMI	111,879
Title XIX DD Adult	5,735
Non-Title XIX SMI	34,459
Title XXI SMI	74
Title XXI HIFA SMI	1,654
Title XIX GMHSA	48,428
Non-Title XIX Mental Health	1,978
Non-Title XIX Substance Abuse	720
	$ 421,572

Although the Company believes that this estimate as of June 30, 2005 is appropriate in the circumstances, it is possible that the Company's actual incurred expenses will not conform to the assumptions inherent in the determination of this estimate. Accordingly the ultimate amount paid may vary from this estimate included in the accompanying statement of activities. Such revisions are recorded when known.

Administrative Expense

Except for HB2003, Other, and Management & General, administrative expense is limited by the Contract to 7.5% of revenue. The Company records this administrative expense in natural class categories and allocates this expense to applicable Fund Sources primarily based on revenue. Combined administrative expense and profit for HB2003 is limited to 8% of revenue and is recorded in the relevant Fund Source. Other and Management & General administrative expense is not related to the ADHS-DBHS and is not limited by the Contract. Management & General administrative expense is an allocation from ValueOptions and is recorded based on a percentage of Management & General revenue.

Income Taxes

The provision for income taxes is computed using the statutory rate, based on the Company's income, after giving effect to permanent differences. The Company computes the income tax expense attributable to each Fund Source by applying the Company's effective tax rate to net income before income taxes for each Fund Source.

Risks and Uncertainties

The Company's business could be impacted by ongoing federal and state legislation in the areas of healthcare reform. Changes in these areas could adversely affect the Company's operations in the future. Substantially all of the revenues of the Company are generated through the Contract.

Premium Deficiencies
The Company records an expense to provide a premium deficiency reserve when expected claims payments or incurred costs, claims adjustment expenses and administration costs exceed the premiums to be collected for the remainder of a contract period. Anticipated investment income is not used as a factor in the premium deficiency reserve calculation. No such expense was recorded during the year ended June 30, 2005.

Depreciation Expense
The Company provides for depreciation using the straight-line method over the estimated useful lives of the related assets as follows:

Computers	3 years
Furniture and fixtures	10 years
Fixed equipment	4 years
Leasehold improvements	lesser of remaining term of lease or estimated useful life

3. Retirement Plan

The Company participates in the FHC 401(k) defined contribution employee benefit plan. The Company made contributions to the plan of approximately $701,000 for the year ended June 30, 2005 which was recorded in administrative expense.

4. Income Taxes

ValueOptions files a consolidated federal income tax return with FHC. The provision for income taxes is computed for each entity and entity division in the consolidated group. The provision for income taxes consists of the following:

Currently payable	
Federal	$ 6,126,123
State	1,358,429
	7,484,552
Deferred income taxes	
Federal	(1,328,723)
State	(345,540)
	(1,674,263)
	$ 5,810,289

Income tax expense reconciled to the tax computed at statutory rates is as follows:

Statutory federal income tax rate	35 %
State income taxes, net of federal benefit	5
	40 %

5. Related-Party Transactions

FHC, ValueOptions and affiliated companies provide administrative and other services to the Company and the Division, including systems functions, accounts payable and payroll processing. Certain services previously charged from affiliated companies are now provided directly by the Company. Included in general and administrative expenses is an allocation of the costs of the administrative services provided by affiliated companies. The Company's allocation was approximately $10,677,000 for the year ended June 30, 2005.

Under the provisions of the Contract with ADHS-DBHS, dividends and other distributions may be paid only to the extent of allowable profit in each of the funding sources as defined. The Company distributed $6,400,000 for the year ended June 30, 2005. These amounts did not exceed the profit maximum as defined.

The Company serves as the administrative trustee of Casa Buena, Inc. ("Casa Buena"), a non-profit 501(c)3 corporation that was the recipient of grants and contributions from the ComCare Liquidation Proceeds Trust established by the ADHS-DBHS. Various expenses are paid by the Company on behalf of Casa Buena. The members of Casa Buena's Board of Directors are employed by ValueOptions or the Company. Under the provisions of a compensation agreement, as amended, the Company is allowed an administrative fee, set at an amount of up to 8% of total expenditures by Casa Buena in any given year. The administrative fee charged by the Company for the year ended June 30, 2005 was approximately $60,000.

6. Commitments and Contingencies

Leases
The Company leases office space in Arizona for its headquarters and various case management clinics. Included in Case Management and Administrative Expense – Occupancy are allocations of rent expense of approximately $3,080,000 and $1,211,000, respectively, for the year ended June 30, 2005.

Aggregate future minimum payments under these leases for the five years ending after June 30, 2005 are as follows:

Year ending June 30,		
2006	$	6,183,515
2007		5,863,665
2008		5,565,066
2009		5,347,845
2010		2,148,977
Thereafter		44,844
	$	25,153,912

Liability Insurance
The Company, through its parent, FHC Health Systems, Inc. maintains professional and general liability insurance coverage under claims-made policies. Effective September 1, 2003, the Company is insured for losses up to $15,000,000 per claim and in the aggregate, with self-insured retentions of $1,000,000 per claim. FHC maintains an umbrella policy providing for professional and general liability coverage up to $10,000,000 per claim and in the aggregate.

Claims reported endorsement (tail coverage) is available if the policy is not renewed to cover claims incurred but not reported. The Company anticipates that renewal coverage will be available at expiration of the current policy. The Company participates in the above policy with its affiliates. Per claim and aggregate limits are applicable to all covered entities as a group.

Litigation
The Company is from time to time subject to claims and suits arising in the ordinary course of operations. As of June 30, 2005, the Company has reserved approximately $4,375,000 for expected losses related to these exposures.

7. Contract Requirements

The Company is subject to Contract provisions which require the Company to maintain certain financial ratios, a net worth requirement of the greater of $10,000,000 or 90% of any given month's total payments for the contract year ending June 30, and the maintenance of a performance bond equal to 110 percent of each quarter's capitation as determined by ADHS-DBHS. In satisfaction of the bond requirement, the Company maintained a performance bond in the required amount of approximately $45,168,000 as of June 30, 2005. The performance bond was renewed effective July 1, 2005.

As discussed in Note 2, the Company is limited by the terms of the Contract to profit that can be earned under the various programs. Contract profit limitations are applied on an after-tax basis. Also, if the Company's profit exceeds the profit limitations resulting in the reduction of recognized revenue, the related tax effect of that reduction is not considered for purposes of the profit limitation.

Total administrative expenses are limited by the Contract to 7.5% of contract revenue for all programs except HB2003. Combined administrative expenses and profit related to HB2003 are limited to 8% of revenue. In accordance with the Contract, income tax expense is not included as an administrative expense of the Company that is subject to this limitation. Effective July 1, 2004, the Contract limits the percentage of administrative expenses incurred outside of Arizona to 35% of total administrative expenses.

As of June 30, 2005, the Company has reported less than the minimum number of encounters as stipulated in the Contract and is subject to a potential recoupment by the ADHS-DBHS of approximately $128,000 if no more encounters are submitted. This amount has been recorded in administrative expenses as the Company expects that less than the minimum number of encounters will be submitted for Title XXI fund sources. The Company has until February 28, 2006 to submit encounters related to the year ended June 30, 2005. In addition, the ADHS-DBHS has a right to sanction the Contractors for other matters of non-compliance of the Contract, as determined by the ADHS-DBHS. The Company recorded approximately $700,000 (including the $128,000 discussed above) as administrative expenses for sanctions for the year ended June 30, 2005.

As discussed in Note 2, the Company entered into a new three-year contract with the ADHS-DBHS. Provisions of this new Contract subject the Company to the Office of Management and Budget's Circulars A-133 and A-122 requirements, effective July 1, 2004. The Company did not comply with certain requirements relating to the segregation of federal expenditures, monitoring of subrecipients and federal procurement, suspension and debarment policies. The Company is subject to potential sanctions for matters of noncompliance of the Contract. No amounts have been provided as of June 30, 2005 for sanctions that could result from noncompliance with these requirements.

VO of Arizona, Inc.

Financial Statements and Supplemental Schedules
June 30, 2005
(with June 30, 2004 Financial Statements of Arizona Division of ValueOptions, Inc. presented for comparative purposes)

VO of Arizona, Inc.
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June 30, 2005, with June 30, 2004 Financial Statements of Arizona Division of ValueOptions, Inc. presented for comparative purposes

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
1751 Pinnacle Drive
McLean VA 22102-3811
Telephone (703) 918 3000
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Report of Independent Auditors

To the Board of Directors
VO of Arizona, Inc.:

In our opinion, the accompanying balance sheet and the related statements of operations, changes in equity and cash flows present fairly, in all material respects, the financial position of VO of Arizona, Inc. (the "Company") at June 30, 2005, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Arizona Department of Health Services – Division of Behavioral Health Services, the State of Arizona, and the Board of Directors and management of the Company, and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

September 7, 2005

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
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Report of Independent Auditors

Board of Directors
Arizona Division of ValueOptions, Inc.

In our opinion, the accompanying balance sheet and the related statements of operations, of changes in divisional equity and of cash flows present fairly, in all material respects, the financial position of the Arizona Division of ValueOptions, Inc. (the "Division") at June 30, 2004, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Division's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

This report is intended solely for the information and use of the Arizona Department of Health Services – Division of Behavioral Health Services, the State of Arizona and the Board of Directors and management of the Division, and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

September 10, 2004

VO of Arizona, Inc.
Balance Sheets
June 30, 2005, with June 30, 2004 Balance Sheet of Arizona Division of ValueOptions, Inc. presented for comparative purposes

	VO of Arizona, Inc. 2005	Arizona Division of ValueOptions, Inc. 2004
Assets		
Cash and cash equivalents	$ 58,607,281	$ 37,650,745
Restricted cash	-	2,484,700
Accounts receivable	3,894,685	25,808,993
Prepaid expenses and other assets	1,088,835	830,010
Deferred income tax asset	2,669,216	949,316
Total current assets	66,260,017	67,723,764
Property and equipment, net	6,831,969	2,119,236
Deposits	501,409	344,281
Total assets	$ 73,593,395	$ 70,187,281
Liabilities and Equity		
Accounts payable and accrued expenses	16,482,961	7,569,356
Payable to providers	13,926,143	15,137,538
Deferred contract revenue	-	2,484,700
Income taxes payable to FHC Health Systems, Inc.	3,251,681	2,467,152
Due to affiliated companies	827,332	7,877,200
Total current liabilities	34,488,117	35,535,946
Deferred income tax payable	205,265	159,628
Stockholder's equity		
Common stock (no par value, 1,000 shares authorized, issued and outstanding)	-	
Paid-in capital	36,491,707	
Retained earnings	2,408,306	
Divisional equity		
Investment by ValueOptions, Inc.		23,909,952
Retained earnings		10,581,755
	38,900,013	34,491,707
Total liabilities and equity	$ 73,593,395	$ 70,187,281

The accompanying notes are an integral part of these financial statements

VO of Arizona, Inc.
Statements of Operations
Year Ended June 30, 2005, with Year Ended June 30, 2004 Statement of Operations of Arizona Division of ValueOptions, Inc. presented for comparative purposes

	VO of Arizona, Inc. 2005	Arizona Division of ValueOptions, Inc. 2004
Revenues		
Contract revenues	$ 489,428,007	$ 431,415,546
Grants and other	1,996,445	4,856,799
	491,424,452	436,272,345
Expenses		
Program services	439,577,202	391,838,444
General and administrative	37,228,655	33,821,984
	476,805,857	425,660,428
Net earnings before income taxes	14,618,595	10,611,917
Income tax provision	5,810,289	4,203,328
Net earnings	$ 8,808,306	$ 6,408,589

The accompanying notes are an integral part of these financial statements

VO of Arizona, Inc.
Statement of Changes in Equity
Year Ended June 30, 2005, with Year Ended June 30, 2004 Statement of Changes in Divisional Equity of Arizona Division of ValueOptions, Inc. presented for comparative purposes

	Arizona Division of ValueOptions, Inc.		
	Investment by ValueOptions, Inc.	**Retained Earnings**	**Total**
Balance, July 1, 2003	$ 15,802,429	$ 6,199,166	$ 22,001,595
Net earnings for the year ended June 30, 2004	-	6,408,589	6,408,589
Contributions by ValueOptions, Inc.	8,107,523	-	8,107,523
Distributions to ValueOptions, Inc.	-	(2,026,000)	(2,026,000)
Balance, June 30, 2004	$ 23,909,952	$ 10,581,755	$ 34,491,707

	VO of Arizona, Inc.			
	Common Stock	**Paid-in Capital**	**Retained Earnings**	**Total**
Balance, July 1, 2004	-	$ -	$ -	$ -
Contribution by ValueOptions, Inc. upon incorporation of VO of Arizona, Inc.	-	34,491,707	-	34,491,707
Net earnings for the year ended June 30, 2005	-	-	8,808,306	8,808,306
Additional contribution by ValueOptions, Inc.	-	2,000,000	-	2,000,000
Distributions to ValueOptions, Inc.	-	-	(6,400,000)	(6,400,000)
Balance, June 30, 2005	-	$ 36,491,707	$ 2,408,306	$ 38,900,013

The accompanying notes are an integral part of these financial statements

VO of Arizona, Inc.
Statement of Cash Flows
Year Ended June 30, 2005, with Year Ended June 30, 2004 Statement of Cash Flows of Arizona Division of ValueOptions, Inc. presented for comparative purposes

	VO of Arizona, Inc. 2005	Arizona Division of ValueOptions, Inc. 2004
Operating activities		
Net earnings	$ 8,808,306	$ 6,408,589
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities		
Depreciation	1,794,420	881,161
Deferred income taxes	(1,674,263)	(386,477)
Cash provided by (used in) changes in		
Restricted cash	2,484,700	1,378,251
Accounts receivable	21,914,308	(15,775,164)
Prepaid expenses and other assets	(258,825)	64,778
Payable to providers	(1,211,395)	3,004,141
Accounts payable and accrued expenses	8,667,238	1,499,341
Deferred contract revenue	(2,484,700)	(1,378,251)
Income taxes payable to FHC Health Systems, Inc.	784,529	389,806
Due to affiliated companies	(7,009,166)	1,939,291
Net cash provided by (used in) operating activities	31,815,152	(1,974,534)
Investing activities		
Purchases of property and equipment	(6,301,488)	(863,257)
Decrease (increase) in deposits	(157,128)	156,476
Maturities of short-term investments	-	5,802,429
Net cash provided by (used in) investing activities	(6,458,616)	5,095,648
Financing activities		
Contribution of cash upon incorporation of VO of Arizona, Inc.	37,650,745	-
Contributions by ValueOptions, Inc.	2,000,000	8,107,523
Distributions to ValueOptions, Inc.	(6,400,000)	(2,026,000)
Net cash provided by financing activities	33,250,745	6,081,523
Increase in cash and cash equivalents	58,607,281	9,202,637
Cash and cash equivalents		
Beginning of year	-	28,448,108
End of year	$ 58,607,281	$ 37,650,745
Supplemental disclosure		
Income taxes paid	$ 6,700,000	$ 4,200,000
Transfer of equipment to affiliate, net of accumulated depreciation of $151,228 in 2005 and $0 in 2004	40,702	-
Non-cash acquisition of property and equipment	246,367	-

The accompanying notes are an integral part of these financial statements

1. Description of Business

Effective July 12, 2004, VO of Arizona, Inc. (the "Company") was incorporated in the State of Arizona. On that date, the assets and liabilities of the Arizona Division of ValueOptions, Inc. (the "Division") (collectively with the Company, the "Contractors") were transferred to the Company and the Division's contract with the Arizona Department of Health Services – Division of Behavioral Health Services ("ADHS – DBHS") (the "Contract") was legally assigned to the Company. VO of Arizona, Inc. is a wholly-owned subsidiary of ValueOptions, Inc. ("ValueOptions"), a Virginia corporation. ValueOptions is a wholly-owned subsidiary of FHC Health Systems, Inc. ("FHC"), also a Virginia corporation.

FHC and ValueOptions report on a calendar year basis. The Contractors report on a June 30 fiscal year-end to coincide with the fiscal year of the State of Arizona and the terms of the Contract. All the revenues, expenses, assets and liabilities of the Contractors are directly attributable to the Contract. The accompanying 2005 financial statements of the Company include the results of operations of the Contract from July 1, 2004 through June 30, 2005. The results of operations for the period from July 1, 2004 through July 11, 2004 that were prior to the incorporation of the Company, and determined to be immaterial by management, were approximately as follows:

Contract revenues	$ 13,300,000
Net earnings before income taxes	500,000
Net earnings	300,000

The accompanying 2004 financial statements of the Division include the revenues, expenses, assets and liabilities of ValueOptions that resulted from or were dedicated solely to providing services under the Contract as recorded on the Division's books and records for the period July 1, 2003 through June 30, 2004. During that period, the Division was not a separate legal entity.

The Contractors provide managed behavioral healthcare services to Maricopa County Medicaid ("Title XIX"), Non-Medicaid ("Non-Title XIX"), and KidsCare ("Title XXI") beneficiaries under a contract with the ADHS-DBHS. The Contractors also provide managed behavioral healthcare services under the Contract to qualifying adults and children in Maricopa County under special funding from the House Bill 2003 tobacco litigation settlement ("HB2003"). The Contractors also provide managed behavioral healthcare services to capitated adults under a special Healthcare Insurance Flexibility Accounting ("HIFA II") waiver funded from excess KidsCare funding.

The original term of the Contract was three years, commencing on September 19, 1998 and continued through June 30, 2001 with two additional one-year options for renewal, both of which were executed. On July 1, 2003, there was a separate one-year contract executed with no option to renew. In February 2004, the ADHS-DBHS awarded ValueOptions a new three-year contract, effective July 1, 2004, with two additional one-year options for renewal. The Contract was subsequently assigned to the Company as described above.

2. Summary of Significant Accounting Policies

Basis of Presentation
The accompanying financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Risks and Uncertainties
The Contractors' businesses could be impacted by ongoing federal and state legislation in the areas of healthcare reform. Changes in these areas could adversely affect the Contractors' operations in the future. Substantially all of the revenues of the Contractors are generated through the Contract.

Estimation Process
The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

Payable to Providers
The Contractors compensate providers for authorized behavioral health care and substance abuse services to covered beneficiaries. The Contractors use a variety of methods to estimate the amount payable to providers including authorizations for services to be provided, payments to be made under contract arrangements currently in force, and correspondence with significant providers to ascertain the level of care being provided to beneficiaries for which a claim has not yet been submitted.

The liabilities for payable to providers include estimates of amounts due on reported claims and claims that have been incurred but were not reported as of June 30, 2005 and 2004. Such liabilities represent the Contractors' best estimate of amounts that are reasonable and adequate to discharge the Contractors' obligations for claims incurred but unpaid as of June 30, 2005 and 2004. Such estimates are, however, subject to a significant degree of inherent variability. Estimates are continually reviewed and adjusted as necessary as experience develops and new information becomes known; such adjustments are included in current operations. For the year ended June 30, 2005, the Company's program services expense decreased approximately $422,000 related to such revisions. For the year ended June 30, 2004 the Division's program services expense increased approximately $3,054,000 related to such revisions. Although the Contractors believe that the estimates of payables to providers at June 30, 2005 and 2004 are appropriate in the circumstances, it is possible that the Contractors' actual incurred expenses will not conform to the assumptions inherent in the determination of the payable to providers; accordingly, the ultimate amounts paid may vary from the estimates included in the Contractors' financial statements. Such revisions are recorded when known.

Contract Revenue

The Contractors receive substantially all of their revenue from the Contract with the ADHS-DBHS. Contract revenues include funds for behavioral healthcare services and prevention programs for youth and seriously mentally ill ("SMI") adult and substance abuse populations under four major types of revenue sources: Title XIX, Title XXI, Non-Title XIX, and HB2003. Contract revenue is recognized in the period for which the Contractors are obligated to provide covered services. Deferred revenue relates to grant amounts received in the current year that cannot be recognized until certain terms are met. Contract revenue is also limited by the terms of the Contract to a maximum profit percentage, as defined. Contract revenue that cannot be recognized due to these profit limits (4% on Title XIX, Non-Title XIX, and Title XXI and 8% on HB2003 for combined administrative expense and profit) is included in accounts payable in the accompanying balance sheets.

Title XIX Revenue

The Contract with the ADHS-DBHS requires the Contractors to provide behavioral healthcare services to all eligible enrollees within its geographic service area. Under this agreement, the Contractors receive monthly capitation payments from the ADHS-DBHS based on a capitated rate and the number of Title XIX Arizona Health Care Cost Containment System ("AHCCCS") enrollees eligible for covered services during that month.

Title XXI Revenue

The Contract with the ADHS-DBHS requires the Contractors to provide behavioral healthcare services to all eligible enrollees within its geographic service area. Under this agreement, the Contractors receive monthly capitation payments from the ADHS-DBHS based on a capitated rate and the number of Title XXI AHCCCS enrollees eligible for covered services during that month.

Non-Title XIX Revenue

The Contract with the ADHS-DBHS provides for payment to the Contractors at a monthly rate equal to one-twelfth of specified annual contract maximums under the ADHS-DBHS Non-Title XIX programs. These programs provide behavioral healthcare services to lower income uninsured or underinsured individuals not eligible for behavioral healthcare coverage under Title XIX or Medicare. Non-Title XIX programs are funded through a combination of federal behavioral healthcare block grant funds, State of Arizona funds and Maricopa County funds administered by the ADHS-DBHS.

HB2003 Revenue

The Contract with the ADHS-DBHS requires the Contractors to provide behavioral healthcare services under special funding from the tobacco litigation settlement. Revenue is recognized using a percentage of completion method based on program milestones as prescribed by the ADHS-DBHS. These programs serve adults and children with serious mental illness and are to be used to provide community housing, vocational rehabilitation and other recovery support services designed to assist beneficiaries in achieving a high level of self-sufficiency and attain their desired goals. Programs related to these funds commenced January 1, 2001 and all funds for adults were required to be expended by June 30, 2005. Revenues under the HB2003 program is included in grants and other revenue in the accompanying statements of operations for the years ended June 30, 2005 and 2004.

Grants and Other Revenue
Under the Contract, the Contractors are required to provide services under certain grants for special populations. Payment is made by the ADHS-DBHS based on expenditure reports submitted by the Contractors.

Program Services Expense
Program services are purchased under fee-for-service or block purchase arrangements. Fee-for-service contract expenses are accrued as incurred. Program services provided under block purchase arrangements are accrued based upon contract terms. From time to time, the Contractors amend their provider contracts. The effects of these amendments are recorded in the period in which the amendment was executed.

The Contractors provide certain services directly to consumers in various settings including case management clinics and a crisis call center. The Contractors record these expenses based on actual costs.

The Contractors receive pharmacy sales incentives from certain vendors for volume-based utilization of certain medications. These incentives are recorded when received as a reduction of program services expense.

Cash and Cash Equivalents
The Contractors consider all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Cash equivalents consist primarily of money market funds and short-term commercial paper. Restricted cash and cash equivalents consist primarily of cash deposits principally restricted due to unearned revenue or terms of the contract.

Premium Deficiencies
The Contractors record a premium deficiency reserve when expected claims payments or incurred costs, claims adjustment expenses and administration costs exceed the premiums to be collected for the remainder of a contract period. Anticipated investment income is not used as a factor in the premium deficiency reserve calculation. No such reserve was required at June 30, 2005 or 2004.

Property and Equipment
Furniture and equipment are stated at cost. The Contractors provide for depreciation using the straight-line method over the estimated useful lives of the related assets as follows:

Computers	3 years
Furniture and fixtures	10 years
Fixed equipment	4 years
Leasehold improvements	lesser of remaining term of lease or estimated useful life

Income Taxes
The provision for income taxes is computed using the statutory rate, based on the Contractors' income, after giving effect to permanent differences.

Separate or unitary income tax returns are filed in the states in which FHC conducts business, including the State of Arizona. Unitary tax returns include affiliated companies whose functions are integrated and interdependent at the basic operational level and are bonded through direct or indirect ownership control.

Deferred income tax assets and liabilities relate to temporary differences between the recorded basis of assets and liabilities for financial reporting and income tax purposes. Such differences result primarily from prepaid expenses, accrued liabilities, payable to providers and depreciation.

Reclassifications

Certain amounts in the Division's 2004 financial statements have been reclassified to conform to the presentation in the Company's 2005 financial statements.

3. Property and Equipment

Property and equipment consists of the following at June 30:

	VO of Arizona, Inc. 2005	Arizona Division of ValueOptions, Inc. 2004
Furniture and equipment	$ 13,086,912	$ 7,430,167
Leasehold improvements	868,377	357,457
Other	272,302	100,476
	14,227,591	7,888,100
Accumulated depreciation	(7,395,622)	(5,768,864)
Property and equipment, net	$ 6,831,969	$ 2,119,236

4. Retirement Plan

The Contractors participate in the FHC 401(k) defined contribution employee benefit plan. The Company made contributions to the plan of approximately $701,000 for the year ended June 30, 2005 and the Division made contributions to the plan of approximately $634,000 for the year ended June 30, 2004.

5. Income Taxes

ValueOptions and the Company file a consolidated federal income tax return with FHC. The provision for income taxes is computed for each entity and entity division in the consolidated group. The provision for income taxes consists of the following:

	VO of Arizona, Inc. 2005	Arizona Division of ValueOptions, Inc. 2004
Currently payable		
Federal	$ 6,126,123	$ 3,780,738
State	1,358,429	809,067
	7,484,552	4,589,805
Deferred income taxes		
Federal	(1,328,723)	(318,351)
State	(345,540)	(68,126)
	(1,674,263)	(386,477)
	$ 5,810,289	$ 4,203,328

Significant components of net deferred tax assets are as follows:

	VO of Arizona, Inc. 2005	Arizona Division of ValueOptions, Inc. 2004
Deferred tax assets		
Payable to providers	$ 96,718	$ 166,267
Accrued liabilities	2,894,182	1,111,909
Deferred tax assets	2,990,900	1,278,176
Deferred tax liabilities		
Prepaid expenses	(255,898)	(275,956)
Depreciation	(205,265)	(159,627)
Accrued benefits	(65,786)	(52,905)
Deferred tax liabilities	(526,949)	(488,488)
Net deferred tax asset	$ 2,463,951	$ 789,688

The deferred taxes are classified in the accompanying balance sheets as follows:

	VO of Arizona, Inc. 2005	Arizona Division of ValueOptions, Inc. 2004
Current assets, net	$ 2,669,216	$ 949,316
Noncurrent liabilities	(205,265)	(159,628)
	$ 2,463,951	$ 789,688

Income tax expense reconciled to the tax computed at statutory rates is as follows:

	VO of Arizona, Inc. 2005	Arizona Division of ValueOptions, Inc. 2004
Statutory federal income tax rate	35 %	35 %
State income taxes, net of federal benefit	5	5
	40 %	40 %

6. Related-Party Transactions

Under an agreement executed on July 1, 2001 with First Hospital Laboratories, Inc. ("First Lab"), an affiliated company, the Division purchased laboratory services from First Lab to support the Division's direct provision of services coordination and clinical services. On April 1, 2004, the Division purchased all assets related to First Lab's Arizona operations at an acquisition price of approximately $48,000, which represented the net book value of such assets at that date. Included in program services expense of the Division for the year ended June 30, 2004 is approximately $585,000 related to the agreement for the nine months ended March 31, 2004.

Under an agreement executed on January 15, 2001 with Rx Innovation, LLC ("RxI"), an affiliated company, the Division purchased pharmaceuticals from RxI to support the Division's direct provision of services coordination and clinical services. On April 1, 2004, the Division purchased all assets and inventories, consisting of a 30-day stock of medications, related to RxI's Arizona operations, for a price of approximately $86,000, which represented the net book value of such assets at that date. Included in program services expense of the Division for the year ended June 30, 2004 is approximately $767,000 related to the agreement for the nine months ended March 31, 2004.

Under an agreement executed on September 1, 2000 with ABSolute Integrated Solutions ("AIS"), an affiliated company, the Division licensed a software system, ABSolute, for use at the Division's sites to monitor encounter claims for case management services. On March 1, 2004, all AIS employees related to its Arizona operations were hired by the Division. Included in program services expense of the Division for the year ended June 30, 2004 is approximately $1,000,000 related to the agreement for the eight months ended February 29, 2004.

FHC, ValueOptions and affiliated companies provide administrative and other services to the Company and the Division, including systems functions, accounts payable and payroll processing. As discussed above, certain services previously charged from affiliated companies are now provided directly by the Contractors. Included in general and administrative expenses is an allocation of the costs of the administrative services provided by affiliated companies. The Company's allocation was approximately $10,677,000 for the year ended June 30, 2005 and the Division's allocation was approximately $17,770,000 for the year ended June 30, 2004.

Amounts due to affiliated companies at June 30, 2005 and 2004 primarily represent payroll and trade accounts payable, which are payable to ValueOptions. Amounts due to affiliated companies are non-interest bearing.

Under the provisions of the Contract with ADHS-DBHS, dividends and other distributions may be paid only to the extent of allowable profit in each of the funding sources as defined. The Company distributed $6,400,000 for the year ended June 30, 2005 and the Division distributed $2,026,000 for the year ended June 30, 2004. These amounts did not exceed the profit maximum as defined.

The Contractors serve as the administrative trustee of Casa Buena, Inc. ("Casa Buena"), a non-profit 501(c)3 corporation that was the recipient of grants and contributions from the ComCare Liquidation Proceeds Trust established by the ADHS-DBHS. Various expenses are paid by the Contractors on behalf of Casa Buena. The members of Casa Buena's Board of Directors are employed by ValueOptions or the Company. Under the provisions of a compensation agreement, as amended, the Contractors are allowed an administrative fee, set at an amount of up to 8% of total expenditures by Casa Buena in any given year. The administrative fee charged by the Company for the year ended June 30, 2005 was approximately $60,000 and by the Division for the year ended June 30, 2004 was approximately $249,000. The net amount due from Casa Buena to the Company as of June 30, 2005 was approximately $53,700, and the net amount due to Casa Buena from the Division as of June 30, 2004 was approximately $670,000.

7. Commitments and Contingencies

Leases
The Contractors lease office space in Arizona for their headquarters and various case management clinics. Rent expense for the years ended June 30, 2005 and 2004 was approximately $4,291,000 and $5,221,000, respectively.

Aggregate future minimum payments of the Company under these leases, for the five years ending after June 30, 2005 are as follows:

Year ending June 30,	
2006	$ 6,183,515
2007	5,863,665
2008	5,565,066
2009	5,347,845
2010	2,148,977
Thereafter	44,844
	$ 25,153,912

Liability Insurance
The Contractors, through FHC, maintain professional and general liability insurance coverage under claims-made policies. Effective September 1, 2002, FHC is insured for losses up to $15,000,000 per claim and in the aggregate, with self-insured retentions of $400,000 per claim and $2,000,000 in the aggregate. Effective September 1, 2003, FHC is insured for losses up to $15,000,000 per claim and in the aggregate, with self-insured retentions of $1,000,000 per claim. The Contractors are also covered under an umbrella policy providing for professional and general liability coverage up to $10,000,000 per claim and in the aggregate.

Claims reported endorsement (tail coverage) is available if the policy is not renewed to cover claims incurred but not reported. The Contractors anticipate that renewal coverage will be available at expiration of the current policy. The Contractors participate in the above policy with its affiliates. Per claim and aggregate limits are applicable to all covered entities as a group.

Litigation
The Contractors are from time to time subject to claims and suits arising in the ordinary course of operations. As of June 30, 2005, the Company has reserved approximately $4,375,000 for expected losses related to these exposures. As of June 30, 2004, the Division had reserved approximately $858,000 for expected losses from these exposures.

8. Contract Requirements

The Contractors are subject to Contract provisions which require the Contractors to maintain certain financial ratios, a net worth requirement of the greater of $10,000,000 or 90% of any given month's total payments for the contract year ending June 30, and the maintenance of a performance bond equal to 110 percent of each quarter's capitation as determined by ADHS-DBHS. In satisfaction of the bond requirement, the Company maintained a performance bond in the required amount of approximately $45,168,000 as of June 30, 2005, and the Division maintained a performance bond in the required amount of approximately $39,580,000 as of June 30, 2004. The performance bond was renewed effective July 1, 2005.

As discussed in Note 2, the Contractors are limited by the terms of the Contract to profit that can be earned under the various programs. Contract profit limitations are applied on an after-tax basis. Also, if the Contractors' profit exceeds the profit limitations resulting in the reduction of recognized revenue, the related tax effect of that reduction is not considered for purposes of the profit limitation.

Total administrative expenses are limited by the Contract to 7.5% of contract revenue for all programs except HB2003. Combined administrative expenses and profit related to HB2003 are limited to 8% of revenue. In accordance with the Contract, income tax expense is not included as an administrative expense of the Contractors that is subject to this limitation. Effective July 1, 2004, the Contract limits the percentage of administrative expenses incurred outside of Arizona to 35% of total administrative expenses.

As of June 30, 2005, the Company has reported less than the minimum number of encounters as stipulated in the Contract and is subject to a potential recoupment by the ADHS-DBHS of approximately $128,000 if no more encounters are submitted. This amount has been recorded in administrative expenses as the Company expects that less than the minimum number of encounters will be submitted for Title XXI fund sources. The Company has until February 28, 2006 to submit encounters related to the year ended June 30, 2005. In addition, the ADHS-DBHS has a right to sanction the Contractors for other matters of non-compliance of the Contract, as determined by the ADHS-DBHS. The Company recorded approximately $700,000 (including the $128,000 discussed above) as administrative expenses for sanctions for the year ended June 30, 2005. The Division recorded approximately $353,000 as administrative expenses for sanctions for the year ended June 30, 2004.

As discussed in Note 2, the Company entered into a new three-year contract with the ADHS-DBHS. Provisions of this new Contract subject the Company to the Office of Management and Budget's Circulars A-133 and A-122 requirements, effective July 1, 2004. The Company did not comply with certain requirements relating to the segregation of federal expenditures, monitoring of subrecipients and federal procurement, suspension and debarment policies. The Company is subject to potential sanctions for matters of noncompliance of the Contract. No amounts have been provided as of June 30, 2005 for sanctions that could result from noncompliance with these requirements.

Supplemental Schedules

VO of Arizona, Inc.
Supplemental Schedule - Statement of Activities
Year Ended June 30, 2005

	TXIX CHILD	TXIX CMDP	TXIX DD CHILD	NTXIX/XXI CHILD	TXXI CHILD	HB2003 CHILD
REVENUES						
401 Revenue Under ADHS Contract						
a ADHS Revenue	$ 68,220,102	$ 33,691,821	$ 5,098,790	$ 5,795,227	$ 4,275,101	$ 1,774,840
b ADHS Revenue - Qualifying Incentive Payments	-	-	-	-	-	-
402 Specialty & Other Grants*	-	-	-	-	-	-
403 Client Fees (Co-pays)	-	-	-	-	-	-
404 Third Party Recoveries						
a Medicare	-	-	-	-	-	-
b Other Insurance	-	-	-	-	-	-
405 Interest Income	-	-	-	-	-	-
406 Other Funding Sources - Non ADHS*	-	-	-	-	-	-
407 Unrelated Business Activities*	-	-	-	-	-	-
408 TOTAL REVENUE	68,220,102	33,691,821	5,098,790	5,795,227	4,275,101	1,774,840
EXPENSES						
Service Expenses:						
501 Treatment Services						
a Counseling						
1 Counseling, Individual	10,432,591	3,470,295	452,421	591,753	856,141	-
2 Counseling, Family	6,332,182	1,746,734	320,671	293,149	521,569	-
3 Counseling, Group	449,596	107,227	7,001	44,426	43,135	-
b Consultation, Assessment & Specialized Testing	4,037,439	607,491	192,023	107,073	328,986	-
c Other Professional	40,463	259	-	541,215	2,542	-
d Total Treatment Services	21,292,271	5,932,006	972,116	1,577,616	1,752,373	-
502 Rehabilitation Services						
a Living Skills Training	1,661,627	624,823	189,509	41,945	53,964	-
b Cognitive Rehabilitation	-	-	-	-	-	-
c Health Promotion	9,418	4,059	20,798	51	740	-
d Supported Employment Services	7,307	11,446	407	299	-	-
e Total Rehabilitation Services	1,678,352	640,328	210,714	42,295	54,704	-
503 Medical Services						
a Medication Services	1,198	-	-	-	-	-
b Medical Management	2,900,952	445,548	339,335	118,474	235,887	-
c Laboratory, Radiology & Medical Imaging	65,697	10,147	7,102	2,987	4,394	-
d Electro-Convulsive Therapy	14,356	-	-	-	-	-
e Total Medical Services	2,982,203	455,695	346,437	121,461	240,281	-
504 Support Services						
a Case Management	194,335	-	5,898	26,684	2,574	-
b Personal Assistance	748,893	462,592	375,116	38,602	32,968	-
c Family Support	2,198,622	714,290	202,779	77,567	105,374	-
d Peer Support	246,339	158,960	14,054	18,038	8,521	-
e Therapeutic Foster Care Services	1,311,954	6,506,213	-	4,769	-	-
f Respite Care	2,676,708	584,165	66,140	55,941	70,905	-
g Housing Support	-	-	-	-	-	-
h Interpreter Services	-	-	-	64,994	-	-
i Flex Fund Services	-	-	-	341,074	-	-
j Transportation	696,583	233,581	15,616	35,691	47,016	-
k Block Purchase NTXIX Consumer Drop In Center	-	-	-	-	-	-
l Total Support Services	8,273,434	8,659,801	679,603	663,360	267,358	-
505 Crisis Intervention Services						
a Crisis Intervention - Mobile	1,519,163	1,348,656	238,291	470,655	65,010	-
b Crisis Services	221,977	37,236	18,299	20,768	15,041	-
c Crisis Phones	9,447	-	291	1,349	115	-
d Total Crisis Intervention Services	1,750,587	1,385,892	256,881	492,772	80,166	-
506 Inpatient Services						
a Hospital						
1 Psychiatric (Provider Types 02 & 71)	2,490,092	629,126	114,066	35,021	212,432	-
2 Detoxification (Provider Types 02 & 71)	-	-	-	-	-	-
b Sub acute Facility						
1 Psychiatric (Provider Types B5 & B6)	145,220	605,142	-	-	-	-
2 Detoxification (Provider Types B5 & B6)	2,228	-	-	-	-	-
c Residential Treatment Center (RTC)						
1 Psychiatric - Secure & Non-Secure (Provider Types 78,B1,B2,B3)	5,954,359	5,403,615	-	163,473	133,428	-
2 Detoxification - Secure & Non-Secure (Provider Types 78,B1,B2,B3)	396	2,917	-	-	-	-
d Inpatient Services, Professional	382,474	89,176	15,957	14,524	26,942	-
e Total Inpatient Services	8,974,769	6,729,976	130,023	213,018	372,802	-
507 Residential Services						
a Level II Behavioral Health Residential Facilities	3,165,864	4,832,524	83,404	80,936	86,869	-
b Level III Behavioral Health Residential Facilities	599,424	1,143,151	-	4,996	-	-
c Room and Board	-	-	-	539,765	-	-
d Total Residential Services	3,765,288	5,975,675	83,404	625,697	86,869	-
508 Behavioral Health Day Program						
a Supervised Day Program	249,872	35,367	3,260	10,016	18,798	-
b Therapeutic Day Program	1,953,391	421,323	10,463	71,758	84,030	-
c Medical Day Program	9,045	-	982	-	1,587	-
d Total Behavioral Health Day Program	2,212,308	456,690	14,705	81,774	104,415	-
509 Prevention Services						
a Prevention	-	-	-	-	-	-
b HIV	-	-	-	-	-	-
c Total Prevention Services	-	-	-	-	-	-
510 Medication						
a Medication Expense	8,225,142	1,156,749	1,604,887	97,933	929,610	-
b Less Pharmacy Rebate Received	(719,561)	(21,614)	(48,396)	(10,763)	(49,321)	-
c Pharmacy Rebate Related Expense	246,708	7,521	16,840	2,779	17,003	-
d Total Medication Services	7,752,289	1,142,656	1,573,331	89,949	897,292	-
511 Other ADHS Service Expenses Not Reported Above*	-	-	-	-	-	1,966,000
512 ADHS/DOC COOL	-	-	-	-	-	-
513 Subtotal ADHS Service Expenses	58,681,501	31,358,749	4,267,214	3,907,942	3,856,260	1,966,000
520 Service Expenses from Non ADHS Sources*	-	-	-	-	-	-
525 Total Service Expense	58,681,501	31,358,749	4,267,214	3,907,942	3,856,260	1,966,000
Administrative Expenses:						
601 Salaries	1,442,753	703,272	109,172	121,494	90,792	-
602 Employee Benefits	425,791	207,552	32,219	35,856	26,795	-
603 Professional & Outside Services	982,290	478,818	74,329	82,719	61,815	-
604 Travel	28,636	13,959	2,167	2,411	1,802	-
605 Occupancy	167,462	81,629	12,672	14,102	10,538	-
606 Depreciation	247,285	120,539	18,712	20,824	15,562	5,133
607 All Other Operating*	1,836,188	895,052	138,942	154,625	115,550	101,358
608 Subtotal ADHS Administrative Expenses	5,130,405	2,500,821	388,213	432,031	322,854	106,491
650 Non ADHS Administrative Expenses*	-	-	-	-	-	-
651 Unrelated Admin. Expense*	-	-	-	-	-	-
652 Subtotal Administrative Expense	5,130,405	2,500,821	388,213	432,031	322,854	106,491
701 Unrelated Business Expenses*	-	-	-	-	-	-
790 Income Tax Provisions						
a ADHS Income Tax Provision	1,752,077	(66,674)	176,219	578,403	38,151	(118,303)
b Non ADHS Income Tax Provision	-	-	-	-	-	-
799 Subtotal Income Tax Provision	1,752,077	(66,674)	176,219	578,403	38,151	(118,303)
800 TOTAL EXPENSES	65,563,983	33,792,896	4,831,646	4,918,376	4,217,265	1,954,188
801 NET INCOME (LOSS)	$ 2,656,119	$ (101,075)	$ 267,144	$ 876,851	$ 57,836	$ (179,348)

	TXIX SMI	TXIX DD ADULT	NTXIX/XXI SMI	HIFA II SMI	TXXI ADULT	HB2003 SMI
REVENUES						
401 Revenue Under ADHS Contract						
a ADHS Revenue	$ 178,348,855	$ 3,476,298	$ 79,686,137	$ 2,037,054	$ 176,208	$ 468,849
b ADHS Revenue - Qualifying Incentive Payments	-	-	-	-	-	-
402 Specialty & Other Grants*	-	-	-	-	-	-
403 Client Fees (Co-pays)	2,366	-	2,691	-	-	-
404 Third Party Recoveries						
a Medicare	337,189	-	245,515	-	-	-
b Other Insurance	24,165	-	24,366	-	-	-
405 Interest Income	-	-	-	-	-	-
406 Other Funding Sources - Non ADHS*	-	-	-	-	-	-
407 Unrelated Business Activities*	-	-	-	-	-	-
408 TOTAL REVENUE	178,712,575	3,476,298	79,958,709	2,037,054	176,208	468,849
EXPENSES						
Service Expenses:						
501 Treatment Services						
a Counseling						
1 Counseling, Individual	6,228,673	76,023	1,946,567	99,266	41,351	-
2 Counseling, Family	208,802	1,075	101,840	2,780	6,623	-
3 Counseling, Group	849,993	9,889	297,978	10,181	7,392	-
b Consultation, Assessment & Specialized Testing	1,579,291	38,835	832,967	13,058	29,104	-
c Other Professional	29	924	1,366,140	603	-	-
d Total Treatment Services	8,866,788	126,746	4,545,512	125,888	84,480	-
502 Rehabilitation Services						
a Living Skills Training	5,589,784	151,046	1,720,646	59,103	3,575	-
b Cognitive Rehabilitation	-	-	-	-	-	-
c Health Promotion	280,594	6,074	84,003	5,917	-	-
d Supported Employment Services	3,948,777	317,667	1,493,701	248,718	889	-
e Total Rehabilitation Services	9,819,135	474,787	3,298,350	313,738	4,464	-
503 Medical Services						
a Medication Services	882,605	24,488	242,764	7,831	4,377	-
b Medical Management	6,742,441	194,654	3,187,523	82,516	25,395	-
c Laboratory, Radiology & Medical Imaging	627,844	19,525	359,096	8,885	1,408	-
d Electro-Convulsive Therapy	122,842	-	169,771	-	-	-
e Total Medical Services	8,375,732	238,667	3,959,154	99,232	31,180	-
504 Support Services						
a Case Management	53,646,547	732,633	24,957,350	519,392	14,443	-
b Personal Assistance	7,997,732	283,856	1,873,492	18,275	59	-
c Family Support	29,290	2,180	14,108	13	-	-
d Peer Support	785,359	19,762	287,506	11,884	67	-
e Therapeutic Foster Care Services	248,022	-	42,116	-	-	-
f Respite Care	2,002	-	-	-	-	-
g Housing Support	-	-	2,617,274	14,877	-	-
h Interpreter Services	-	-	41,251	-	-	-
i Flex Fund Services	-	-	1,306,167	-	-	-
j Transportation	3,170,454	92,214	1,075,334	18,423	1,676	-
k Block Purchase NTXIX Consumer Drop In Center	872,908	-	358,464	-	-	-
l Total Support Services	66,752,314	1,127,615	32,553,061	582,864	16,245	-
505 Crisis Intervention Services						
a Crisis Intervention - Mobile	2,640,809	234,288	850,770	59,590	11,777	-
b Crisis Services	1,487,931	32,902	475,282	11,325	7,343	-
c Crisis Phones	2,719,689	34,983	1,305,533	-	637	-
d Total Crisis Intervention Services	6,848,429	302,173	2,631,585	70,915	19,757	-
506 Inpatient Services						
a Hospital						
1 Psychiatric (Provider Types 02 & 71)	15,134,836	251,616	7,686,789	120,249	14,873	-
2 Detoxification (Provider Types 02 & 71)	68,888	-	34,150	-	-	-
b Sub acute Facility						
1 Psychiatric (Provider Types B5 & B6)	5,037	-	-	-	-	-
2 Detoxification (Provider Types B5 & B6)	168,403	-	41,392	-	1,453	-
c Residential Treatment Center (RTC)						
1 Psychiatric - Secure & Non-Secure (Provider Types 78,B1,B2,B3)	1,372,256	8,360	744,800	1,354	-	-
2 Detoxification - Secure & Non-Secure (Provider Types 78,B1,B2,B3)	-	-	-	-	-	-
d Inpatient Services, Professional	573,654	8,776	212,349	1,525	1,313	-
e Total Inpatient Services	17,323,074	268,752	8,721,490	123,128	17,639	-
507 Residential Services						
a Level II Behavioral Health Residential Facilities	10,289,179	86,221	2,847,930	8,080	1,340	-
b Level III Behavioral Health Residential Facilities	2,654,832	33,916	508,330	-	-	-
c Room and Board	-	-	1,365,294	-	-	-
d Total Residential Services	12,944,011	120,137	4,721,554	8,080	1,340	-
508 Behavioral Health Day Program						
a Supervised Day Program	1,438,296	13,911	497,387	9,355	40	-
b Therapeutic Day Program	3,188,308	1,131	946,360	30,852	-	-
c Medical Day Program	-	-	-	-	-	-
d Total Behavioral Health Day Program	4,626,604	15,042	1,443,747	40,207	40	-
509 Prevention Services						
a Prevention	-	-	-	-	-	-
b HIV	-	-	-	-	-	-
c Total Prevention Services	-	-	-	-	-	-
510 Medication						
a Medication Expense	25,111,855	3,305,067	14,231,980	440,849	58,627	-
b Less Pharmacy Rebate Received	(1,768,953)	(178,079)	(1,064,704)	(52,625)	-	-
c Pharmacy Rebate Related Expense	585,298	61,963	331,397	18,311	-	-
d Total Medication Services	23,928,200	3,188,951	13,498,673	406,535	58,627	-
511 Other ADHS Service Expenses Not Reported Above*	-	-	-	-	-	398,936
512 ADHS/DOC COOL	-	-	-	-	-	-
513 Subtotal ADHS Service Expenses	159,484,287	5,862,870	75,373,126	1,770,587	233,772	398,936
520 Service Expenses from Non ADHS Sources*	-	-	-	-	-	-
525 Total Service Expense	159,484,287	5,862,870	75,373,126	1,770,587	233,772	398,936
Administrative Expenses:						
601 Salaries	3,777,004	73,799	1,685,905	43,742	3,729	-
602 Employee Benefits	1,114,684	21,780	497,551	12,909	1,101	-
603 Professional & Outside Services	2,571,550	50,246	1,147,838	29,781	2,539	-
604 Travel	74,967	1,465	33,462	868	74	-
605 Occupancy	436,400	8,566	195,684	5,077	433	-
606 Depreciation	647,371	12,649	288,961	7,497	639	1,356
607 All Other Operating*	4,806,982	93,924	2,145,647	55,670	4,746	26,775
608 Subtotal ADHS Administrative Expenses	13,430,958	262,429	5,995,048	155,544	13,261	28,131
650 Non ADHS Administrative Expenses*	-	-	-	-	-	-
651 Unrelated Admin. Expense*	-	-	-	-	-	-
652 Subtotal Administrative Expense	13,430,958	262,429	5,995,048	155,544	13,261	28,131
701 Unrelated Business Expenses*	-	-	-	-	-	-
790 Income Tax Provisions						
a ADHS Income Tax Provision	2,158,713	(1,052,869)	(669,234)	44,086	(28,150)	16,607
b Non ADHS Income Tax Provision	145,488	-	109,029	-	-	-
799 Subtotal Income Tax Provision	2,304,201	(1,052,869)	(560,205)	44,086	(28,150)	16,607
800 TOTAL EXPENSES	175,219,446	5,072,430	80,807,969	1,970,217	218,883	443,674
801 NET INCOME (LOSS)	$ 3,493,129	$ (1,596,132)	$ (849,260)	$ 66,837	$ (42,675)	$ 25,175

	TXIX GMHSA	HIFA II GMH	MENTAL HEALTH	SUBSTANCE ABUSE	PREVENTION INTERVENTION	PASARR	ADHS DOC	OTHER
REVENUES								
401 Revenue Under ADHS Contract								
a ADHS Revenue	$ 70,479,147	$ 804,233	$ 2,202,505	$ 24,864,948	$ 6,104,465	$ 85,750	$ 1,637,677	$ -
b ADHS Revenue - Qualifying Incentive Payments	-	-	-	-	-	-	-	-
402 Specialty & Other Grants*	-	-	-	-	-	-	-	-
403 Client Fees (Co-pays)	26	-	110	42	-	-	-	-
404 Third Party Recoveries								
a Medicare	2,261	-	9,221	714	-	-	-	-
b Other Insurance	-	-	1,507	201	-	-	-	-
405 Interest Income	-	-	-	-	-	-	-	-
406 Other Funding Sources - Non ADHS*	-	-	-	-	-	-	-	60,751
407 Unrelated Business Activities*	-	-	-	-	-	-	-	-
408 TOTAL REVENUE	70,481,434	804,233	2,213,343	24,865,905	6,104,465	85,750	1,637,677	60,751
EXPENSES								
Service Expenses:								
501 Treatment Services								
a Counseling								
1 Counseling, Individual	7,571,787	98,706	95,927	1,764,431	-	-	-	-
2 Counseling, Family	297,064	6,870	5,718	8,221	-	-	-	-
3 Counseling, Group	3,233,918	15,130	34,287	1,243,368	-	-	-	-
b Consultation, Assessment & Specialized Testing	4,754,554	63,689	258,324	950,251	-	-	-	-
c Other Professional	-	1,924	67,498	2,036,140	-	-	-	-
d Total Treatment Services	15,857,323	186,319	461,754	6,002,411	-	-	-	-
502 Rehabilitation Services								
a Living Skills Training	433,723	5,449	3,706	8,208	-	-	-	-
b Cognitive Rehabilitation	-	-	-	-	-	-	-	-
c Health Promotion	75,057	74	590	3,598	-	-	-	-
d Supported Employment Services	588,818	7,262	444	35,052	-	-	-	-
e Total Rehabilitation Services	1,097,598	12,785	4,740	46,858	-	-	-	-
503 Medical Services								
a Medication Services	2,733,851	5,999	7,330	1,381,096	-	-	-	-
b Medical Management	3,218,964	73,860	53,277	173,209	-	-	-	-
c Laboratory, Radiology & Medical Imaging	214,838	2,308	3,699	32,140	-	-	-	-
d Electro-Convulsive Therapy	5,978	-	-	189	-	-	-	-
e Total Medical Services	6,173,631	82,167	64,306	1,586,634	-	-	-	-
504 Support Services								
a Case Management	5,532,916	85,557	1,689,425	484,356	-	-	-	-
b Personal Assistance	544,820	50	-	160,977	-	-	-	-
c Family Support	12,891	78	123	627	-	-	-	-
d Peer Support	143,265	1,565	1,682	36,404	-	-	-	-
e Therapeutic Foster Care Services	12,988	-	-	-	-	-	-	-
f Respite Care	2,628	-	-	-	-	-	-	-
g Housing Support	-	2,196	12,650	552,287	-	-	-	-
h Interpreter Services	-	1,400	19,084	9,580	-	-	-	-
i Flex Fund Services	-	-	16,610	168,659	-	-	-	-
j Transportation	1,607,426	7,005	45,761	199,961	-	-	-	-
k Block Purchase NTXIX Consumer Drop In Center	-	-	-	92,490	-	-	-	-
l Total Support Services	7,856,924	97,851	1,785,335	1,702,341	-	-	-	-
505 Crisis Intervention Services								
a Crisis Intervention - Mobile	2,233,186	21,180	522,448	304,131	-	-	-	-
b Crisis Services	2,479,630	13,015	277,996	1,240,741	-	-	-	-
c Crisis Phones	259,545	-	81,213	28,026	-	-	-	-
d Total Crisis Intervention Services	4,972,361	34,195	881,657	1,572,898	-	-	-	-
506 Inpatient Services								
a Hospital								
1 Psychiatric (Provider Types 02 & 71)	3,614,738	8,489	320,083	63,371	-	-	-	-
2 Detoxification (Provider Types 02 & 71)	125,438	-	-	7,761	-	-	-	-
b Sub acute Facility								
1 Psychiatric (Provider Types B5 & B6)	5,232	-	-	-	-	-	-	-
2 Detoxification (Provider Types B5 & B6)	1,616,759	2,379	9,951	1,260,362	-	-	-	-
c Residential Treatment Center (RTC)								
1 Psychiatric - Secure & Non-Secure (Provider Types 78,B1,B2,B3)	281,795	2,316	39,530	15,203	-	-	-	-
2 Detoxification - Secure & Non-Secure (Provider Types 78,B1,B2,B3)	-	-	-	-	-	-	-	-
d Inpatient Services, Professional	439,763	3,316	77,829	31,147	-	-	-	-
e Total Inpatient Services	6,083,725	16,500	447,393	1,377,844	-	-	-	-
507 Residential Services								
a Level II Behavioral Health Residential Facilities	5,424,462	3,779	11,384	1,045,931	-	-	-	-
b Level III Behavioral Health Residential Facilities	90,249	-	-	-	-	-	-	-
c Room and Board	-	-	48,301	1,725,859	-	-	-	-
d Total Residential Services	5,514,711	3,779	59,685	2,771,790	-	-	-	-
508 Behavioral Health Day Program								
a Supervised Day Program	101,846	87	1,029	346	-	-	-	-
b Therapeutic Day Program	3,019,355	26,847	34,282	1,660,869	-	-	-	-
c Medical Day Program	-	-	-	-	-	-	-	-
d Total Behavioral Health Day Program	3,121,201	26,934	35,311	1,661,215	-	-	-	-
509 Prevention Services								
a Prevention	-	-	-	-	5,431,976	-	-	-
b HIV	-	-	-	936,524	-	-	-	-
c Total Prevention Services	-	-	-	936,524	5,431,976	-	-	-
510 Medication								
a Medication Expense	13,098,626	76,334	165,797	54,979	-	-	-	-
b Less Pharmacy Rebate Received	(1,038,162)	-	(16,018)	(5,268)	-	-	-	-
c Pharmacy Rebate Related Expense	340,225	-	5,068	1,798	-	-	-	-
d Total Medication Services	12,400,689	76,334	154,847	51,509	-	-	-	-
511 Other ADHS Service Expenses Not Reported Above*	-	-	-	-	-	79,319	-	-
512 ADHS/DOC COOL	-	-	-	-	-	-	1,684,584	-
513 Subtotal ADHS Service Expenses	63,078,163	536,864	3,895,028	17,710,024	5,431,976	79,319	1,684,584	-
520 Service Expenses from Non ADHS Sources*	-	-	-	-	-	-	-	-
525 Total Service Expense	63,078,163	536,864	3,895,028	17,710,024	5,431,976	79,319	1,684,584	-
Administrative Expenses:								
601 Salaries	1,492,580	17,085	46,598	527,016	129,264	1,809	38,924	-
602 Employee Benefits	440,496	5,042	13,752	155,535	38,149	534	11,487	-
603 Professional & Outside Services	1,016,214	11,632	31,726	358,816	88,009	1,231	26,501	-
604 Travel	29,625	339	925	10,460	2,566	36	773	-
605 Occupancy	173,245	1,983	5,409	61,171	15,004	210	4,518	-
606 Depreciation	255,825	2,928	7,987	90,330	22,156	310	6,672	-
607 All Other Operating*	1,899,603	21,744	59,305	670,732	164,514	2,302	49,539	-
608 Subtotal ADHS Administrative Expenses	5,307,588	60,753	165,702	1,874,060	459,662	6,432	138,414	-
650 Non ADHS Administrative Expenses*	-	-	-	-	-	-	-	-
651 Unrelated Admin. Expense*	-	-	-	-	-	-	-	-
652 Subtotal Administrative Expense	5,307,588	60,753	165,702	1,874,060	459,662	6,432	138,414	-
701 Unrelated Business Expenses*	-	-	-	-	-	-	-	-
790 Income Tax Provisions								
a ADHS Income Tax Provision	832,032	82,122	(738,596)	2,098,924	84,591	-	5,834	-
b Non ADHS Income Tax Provision	915	-	4,335	383	-	-	-	24,146
799 Subtotal Income Tax Provision	832,947	82,122	(734,261)	2,099,307	84,591	-	5,834	24,146
800 TOTAL EXPENSES	69,218,698	679,739	3,326,469	21,683,391	5,976,229	85,751	1,828,832	24,146
801 NET INCOME (LOSS)	$ 1,262,736	$ 124,494	$ (1,113,126)	$ 3,182,514	$ 128,236	$ (1)	$ 8,845	$ 36,605

	SUB TOTAL	PROGRAM ADMIN & MGMT/GEN	TOTAL
REVENUES			
401 Revenue Under ADHS Contract			
a ADHS Revenue	$ 489,428,007	$ -	$ 489,428,007
b ADHS Revenue - Qualifying Incentive Payments	-	-	-
402 Specialty & Other Grants*	-	-	-
403 Client Fees (Co-pays)	5,235	-	5,235
404 Third Party Recoveries			
a Medicare	594,900	-	594,900
b Other Insurance	50,239	-	50,239
405 Interest Income	-	1,285,320	1,285,320
406 Other Funding Sources - Non ADHS*	60,751	-	60,751
407 Unrelated Business Activities*	-	-	-
408 TOTAL REVENUE	490,139,132	1,285,320	491,424,452
EXPENSES			
Service Expenses:			
501 Treatment Services			
a Counseling			
1 Counseling, Individual	33,725,962	-	33,725,962
2 Counseling, Family	9,853,298	-	9,853,298
3 Counseling, Group	6,353,521	-	6,353,521
b Consultation, Assessment & Specialized Testing	13,793,085	-	13,793,085
c Other Professional	4,057,737	-	4,057,737
d Total Treatment Services	67,783,603	-	67,783,603
502 Rehabilitation Services			
a Living Skills Training	10,547,088	-	10,547,088
b Cognitive Rehabilitation	-	-	-
c Health Promotion	490,973	-	490,973
d Supported Employment Services	6,660,787	-	6,660,787
e Total Rehabilitation Services	17,698,848	-	17,698,848
503 Medical Services			
a Medication Services	5,291,539	-	5,291,539
b Medical Management	17,792,035	-	17,792,035
c Laboratory, Radiology & Medical Imaging	1,360,070	-	1,360,070
d Electro-Convulsive Therapy	313,136	-	313,136
e Total Medical Services	24,756,780	-	24,756,780
504 Support Services			
a Case Management	87,892,110	-	87,892,110
b Personal Assistance	12,537,432	-	12,537,432
c Family Support	3,357,922	-	3,357,922
d Peer Support	1,710,386	-	1,710,386
e Therapeutic Foster Care Services	8,126,061	-	8,126,061
f Respite Care	3,458,489	-	3,458,489
g Housing Support	3,199,284	-	3,199,284
h Interpreter Services	136,309	-	136,309
i Flex Fund Services	1,830,510	-	1,830,510
j Transportation	7,445,741	-	7,445,741
k Block Purchase NTXIX Consumer Drop In Center	1,323,862	-	1,323,862
l Total Support Services	130,998,136	-	130,998,136
505 Crisis Intervention Services			
a Crisis Intervention - Mobile	10,519,954	-	10,519,954
b Crisis Services	6,339,486	-	6,339,486
c Crisis Phones	4,440,828	-	4,440,828
d Total Crisis Intervention Services	21,300,268	-	21,300,268
506 Inpatient Services			
a Hospital			
1 Psychiatric (Provider Types 02 & 71)	30,697,791	-	30,697,791
2 Detoxification (Provider Types 02 & 71)	236,237	-	236,237
b Sub acute Facility			
1 Psychiatric (Provider Types B5 & B6)	760,631	-	760,631
2 Detoxification (Provider Types B5 & B6)	3,102,927	-	3,102,927
c Residential Treatment Center (RTC)			
1 Psychiatric - Secure & Non-Secure (Provider Types 78,B1,B2,B3)	14,120,489	-	14,120,489
2 Detoxification - Secure & Non-Secure (Provider Types 78,B1,B2,B3)	3,313	-	3,313
d Inpatient Services, Professional	1,878,745	-	1,878,745
e Total Inpatient Services	50,800,133	-	50,800,133
507 Residential Services			
a Level II Behavioral Health Residential Facilities	27,967,903	-	27,967,903
b Level III Behavioral Health Residential Facilities	5,034,898	-	5,034,898
c Room and Board	3,679,219	-	3,679,219
d Total Residential Services	36,682,020	-	36,682,020
508 Behavioral Health Day Program			
a Supervised Day Program	2,379,610	-	2,379,610
b Therapeutic Day Program	11,448,969	-	11,448,969
c Medical Day Program	11,614	-	11,614
d Total Behavioral Health Day Program	13,840,193	-	13,840,193
509 Prevention Services			
a Prevention	5,431,976	-	5,431,976
b HIV	936,524	-	936,524
c Total Prevention Services	6,368,500	-	6,368,500
510 Medication			
a Medication Expense	68,558,435	-	68,558,435
b Less Pharmacy Rebate Received	(4,973,464)	-	(4,973,464)
c Pharmacy Rebate Related Expense	1,634,911	-	1,634,911
d Total Medication Services	65,219,882	-	65,219,882
511 Other ADHS Service Expenses Not Reported Above*	2,444,255	-	2,444,255
512 ADHS/DOC COOL	1,684,584	-	1,684,584
513 Subtotal ADHS Service Expenses	439,577,202	-	439,577,202
520 Service Expenses from Non ADHS Sources*	-	-	-
525 Total Service Expense	439,577,202	-	439,577,202
Administrative Expenses:			
601 Salaries	10,304,938	-	10,304,938
602 Employee Benefits	3,041,233	-	3,041,233
603 Professional & Outside Services	7,016,054	-	7,016,054
604 Travel	204,535	-	204,535
605 Occupancy	1,196,103	-	1,196,103
606 Depreciation	1,772,736	-	1,772,736
607 All Other Operating*	13,243,198	-	13,243,198
608 Subtotal ADHS Administrative Expenses	36,778,797	-	36,778,797
650 Non ADHS Administrative Expenses*	-	449,858	449,858
651 Unrelated Admin. Expense*	-	-	-
652 Subtotal Administrative Expense	36,778,797	449,858	37,228,655
701 Unrelated Business Expenses*	-	-	-
790 Income Tax Provisions			
a ADHS Income Tax Provision	5,193,933	-	5,193,933
b Non ADHS Income Tax Provision	284,296	332,060	616,356
799 Subtotal Income Tax Provision	5,478,229	332,060	5,810,289
800 TOTAL EXPENSES	481,834,228	781,918	482,616,146
801 NET INCOME (LOSS)	$ 8,304,904	$ 503,402	$ 8,808,306

*Disclose on Schedule A

VO of Arizona, Inc.
Supplemental Schedule - Schedule A Disclosure
Year Ended June 30, 2005

	TXIX CHILD	TXIX CMDP	TXIX DD CHILD	NTXIX/XXI CHILD	TXXI CHILD	HB2003 CHILD	TXIX SMI	TXIX DD ADULT
DISCLOSURE OF OTHER REVENUE REPORTED ON LINE 406								
Lab Revenue	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Miscellaneous	-	-	-	-	-	-	-	-
Total Other Revenue	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
DISCLOSURE OF ALL OTHER BEHAVIORAL HEALTH SERVICES ON LINE 511								
HB2003 Children and Adult services	$ -	$ -	$ -	$ -	$ -	$ 1,966,000	$ -	$ -
PASARR	-	-	-	-	-	-	-	-
Total All Other Behavioral Health Services	$ -	$ -	$ -	$ -	$ -	$ 1,966,000	$ -	$ -
DISCLOSURE OF ALL OTHER OPERATING ON LINE 607								
Maintenance Contracts	$ 34,146	$ 16,645	$ 2,584	$ 2,875	$ 2,149	$ 1,885	$ 89,393	$ 1,747
Supplies	32,881	16,028	2,488	2,769	2,069	1,815	86,082	1,682
Phone	45,582	22,219	3,449	3,838	2,868	2,516	119,332	2,332
Licenses & Taxes	7,524	3,668	569	634	473	415	19,698	385
Insurance	82,212	40,074	6,221	6,923	5,174	4,538	215,224	4,205
Training	53,988	26,317	4,085	4,546	3,397	2,980	141,337	2,762
Postage	12,029	5,863	910	1,013	757	664	31,491	615
Sanctions & penalties expense	96,981	47,274	7,338	8,167	6,103	5,353	253,890	4,961
Net Allocation In	1,470,845	716,964	111,298	123,860	92,560	81,192	3,650,535	75,235
Total All Other Operating	$ 1,836,188	$ 895,052	$ 138,942	$ 154,625	$ 115,550	$ 101,358	$ 4,806,982	$ 93,924
DISCLOSURE OF NON-ADHS ADMINISTRATIVE EXPENSES ON LINE 650								
Investment income administration	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Non-ADHS Administrative Expenses	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

	NTXIX/XXI SMI	HIFA II SMI	TXXI ADULT	HB2003 SMI	TXIX GMHSA	HIFA II GMH	MENTAL HEALTH	SUBSTANCE ABUSE
DISCLOSURE OF OTHER REVENUE REPORTED ON LINE 406								
Lab Revenue	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Miscellaneous	-	-	-	-	-	-	-	-
Total Other Revenue	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
DISCLOSURE OF ALL OTHER BEHAVIORAL HEALTH SERVICES ON LINE 511								
HB2003 Children and Adult services	$ -	$ -	$ -	$ 398,936	$ -	$ -	$ -	$ -
PASARR	-	-	-	-	-	-	-	-
Total All Other Behavioral Health Services	$ -	$ -	$ -	$ 398,936	$ -	$ -	$ -	$ -
DISCLOSURE OF ALL OTHER OPERATING ON LINE 607								
Maintenance Contracts	$ 39,901	$ 1,035	$ 88	$ 498	$ 35,325	$ 404	$ 1,103	$ 12,473
Supplies	38,423	997	85	479	34,017	389	1,062	12,011
Phone	53,264	1,382	118	665	47,157	540	1,472	16,651
Licenses & Taxes	8,792	228	19	110	7,784	89	243	2,748
Insurance	96,067	2,493	212	1,199	85,051	974	2,655	30,031
Training	63,087	1,637	140	787	55,853	639	1,744	19,721
Postage	14,056	365	31	175	12,444	142	388	4,394
Sanctions & penalties expense	113,326	2,940	251	1,414	100,331	1,148	3,132	35,426
Net Allocation In	1,718,731	44,593	3,802	21,448	1,521,641	17,419	47,506	537,277
Total All Other Operating	$ 2,145,647	$ 55,670	$ 4,746	$ 26,775	$ 1,899,603	$ 21,744	$ 59,305	$ 670,732
DISCLOSURE OF NON-ADHS ADMINISTRATIVE EXPENSES ON LINE 650								
Investment income administration	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Non-ADHS Administrative Expenses	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

	PREVENTION INTERVENTION	PASARR	ADHS DOC	OTHER	SUB TOTAL	PROGRAM ADMIN & MGMT/GEN	TOTAL
DISCLOSURE OF OTHER REVENUE REPORTED ON LINE 406							
Lab Revenue	$ -	$ -	$ -	$ 45,904	$ 45,904	$ -	$ 45,904
Miscellaneous	-	-	-	14,847	14,847	-	14,847
Total Other Revenue	$ -	$ -	$ -	$ 60,751	$ 60,751	$ -	$ 60,751
DISCLOSURE OF ALL OTHER BEHAVIORAL HEALTH SERVICES ON LINE 511							
HB2003 Children and Adult services	$ -	$ -	$ -	$ -	$ 2,364,936	$ -	$ 2,364,936
PASARR	-	79,319	-	-	79,319	-	79,319
Total All Other Behavioral Health Services	$ -	$ 79,319	$ -	$ -	$ 2,444,255	$ -	$ 2,444,255
DISCLOSURE OF ALL OTHER OPERATING ON LINE 607							
Maintenance Contracts	$ 3,059	$ 43	$ 921	$ -	$ 246,274	$ -	$ 246,274
Supplies	2,946	41	887	-	237,151	-	237,151
Phone	4,084	57	1,230	-	328,756	-	328,756
Licenses & Taxes	674	9	203	-	54,265	-	54,265
Insurance	7,366	103	2,218	-	592,940	-	592,940
Training	4,837	68	1,457	-	389,382	-	389,382
Postage	1,078	15	325	-	86,755	-	86,755
Sanctions & penalties expense	8,689	122	2,616	-	699,462	-	699,462
Net Allocation In	131,781	1,844	39,682	-	10,608,213	-	10,608,213
Total All Other Operating	$ 164,514	$ 2,302	$ 49,539	$ -	$ 13,243,198	$ -	$ 13,243,198
DISCLOSURE OF NON-ADHS ADMINISTRATIVE EXPENSES ON LINE 650							
Investment income administration	$ -	$ -	$ -	$ -	$ -	$ 449,858	$ 449,858
Total Non-ADHS Administrative Expenses	$ -	$ -	$ -	$ -	$ -	$ 449,858	$ 449,858

VO of Arizona, Inc.

Financial Statements and Audit of Federal Awards Performed in Accordance with U.S. Office of Management and Budget Circular A-133 for the year ended June 30, 2005
(With Reports of Independent Auditors Thereon)

VO of Arizona, Inc.
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June 30, 2005

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
1751 Pinnacle Drive
McLean VA 22102-3811
Telephone (703) 918 3000
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Report of Independent Auditors

To the Board of Directors
VO of Arizona, Inc.

In our opinion, the accompanying balance sheet and the related statement of operations, of changes in equity and of cash flows present fairly, in all material respects, the financial position of VO of Arizona, Inc. (the "Company") as of June 30, 2005, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2005 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Arizona Department of Health Services – Division of Behavioral Health Services, the State of Arizona, federal awarding agencies and pass-through entities and the Board of Directors and management of the Company.

PricewaterhouseCoopers LLP

September 7, 2005

VO of Arizona, Inc.
Balance Sheet
June 30, 2005

Assets	
Cash and cash equivalents	$ 58,607,281
Accounts receivable	3,894,685
Prepaid expenses and other assets	1,088,835
Deferred income tax asset	2,669,216
Total current assets	66,260,017
Property and equipment, net	6,831,969
Deposits	501,409
Total assets	$ 73,593,395
Liabilities and Equity	
Accounts payable and accrued expenses	16,482,961
Payable to providers	13,926,143
Income taxes payable to FHC Health Systems, Inc.	3,251,681
Due to affiliated companies	827,332
Total current liabilities	34,488,117
Deferred income tax payable	205,265
Stockholder's equity	
Common stock (no par value, 1,000 shares authorized, issued and outstanding)	-
Paid-in capital	36,491,707
Retained earnings	2,408,306
	38,900,013
Total liabilities and equity	$ 73,593,395

The accompanying notes are an integral part of these financial statements

VO of Arizona, Inc.
Statement of Operations
Year Ended June 30, 2005

Revenues	
Contract revenues	$ 489,428,007
Grants and other	1,996,445
	491,424,452
Expenses	
Program services	439,577,202
General and administrative	37,228,655
	476,805,857
Net earnings before income taxes	14,618,595
Income tax provision	5,810,289
Net earnings	$ 8,808,306

The accompanying notes are an integral part of these financial statements

VO of Arizona, Inc.
Statement of Changes in Equity
Year Ended June 30, 2005

	Common Stock	Paid-in Capital	Retained Earnings	Total
Balance, July 1, 2004	-	$ -	$ -	$ -
Contribution by ValueOptions, Inc. upon incorporation of VO of Arizona, Inc.	-	34,491,707	-	34,491,707
Net earnings for the year ended June 30, 2005	-	-	8,808,306	8,808,306
Additional contribution by ValueOptions, Inc.	-	2,000,000	-	2,000,000
Distributions to ValueOptions, Inc.	-	-	(6,400,000)	(6,400,000)
Balance, June 30, 2005	-	$ 36,491,707	$ 2,408,306	$ 38,900,013

The accompanying notes are an integral part of these financial statements

VO of Arizona, Inc.
Statement of Cash Flows
Year Ended June 30, 2005

Operating activities	
Net earnings	$ 8,808,306
Adjustments to reconcile net earnings to net cash provided by operating activities	
Depreciation	1,794,420
Deferred income taxes	(1,674,263)
Cash provided by (used in) changes in	
Restricted cash	2,484,700
Accounts receivable	21,914,308
Prepaid expenses and other assets	(258,825)
Payable to providers	(1,211,395)
Accounts payable and accrued expenses	8,667,238
Deferred contract revenue	(2,484,700)
Income taxes payable to FHC Health Systems, Inc.	784,529
Due to affiliated companies	(7,009,166)
Net cash provided by operating activities	31,815,152
Investing activities	
Purchases of property and equipment	(6,301,488)
Increase in deposits	(157,128)
Maturities of short-term investments	-
Net cash used in investing activities	(6,458,616)
Financing activities	
Contribution of cash upon incorporation of VO of Arizona, Inc.	37,650,745
Contribution by ValueOptions, Inc.	2,000,000
Distributions to ValueOptions, Inc.	(6,400,000)
Net cash provided by financing activities	33,250,745
Increase in cash and cash equivalents	58,607,281
Cash and cash equivalents	
Beginning of year	-
End of year	$ 58,607,281
Supplemental disclosure	
Income taxes paid	$ 6,700,000
Transfer of equipment to affiliate, net of accumulated depreciation of $151,228 in 2005	40,702
Noncash acquisition of property and equipment	246,367

The accompanying notes are an integral part of these financial statements

1. Description of Business

Effective July 12, 2004, VO of Arizona, Inc. (the "Company") was incorporated in the State of Arizona. On that date, the assets and liabilities of the Arizona Division of ValueOptions, Inc. (the "Division") were transferred to the Company and the Division's contract with the Arizona Department of Health Services – Division of Behavioral Health Services ("ADHS – DBHS") (the "Contract") was legally assigned to the Company. VO of Arizona, Inc. is a wholly-owned subsidiary of ValueOptions, Inc. ("ValueOptions"), a Virginia corporation. ValueOptions is a wholly-owned subsidiary of FHC Health Systems, Inc. ("FHC"), also a Virginia corporation.

FHC and ValueOptions report on a calendar year basis. The Company reports on a June 30 fiscal year-end to coincide with the fiscal year of the State of Arizona and the terms of the Contract. All the revenues, expenses, assets and liabilities of the Company are directly attributable to the Contract. The accompanying 2005 financial statements of the Company include the results of operations of the Contract from July 1, 2004 through June 30, 2005. The results of operations for the period from July 1, 2004 through July 11, 2004 that were prior to the incorporation of the Company, and determined to be immaterial by management, were approximately as follows:

Contract revenues	$ 13,300,000
Net earnings before income taxes	500,000
Net earnings	300,000

The Company provides managed behavioral healthcare services to Maricopa County Medicaid ("Title XIX"), Non-Medicaid ("Non-Title XIX"), and KidsCare ("Title XXI") beneficiaries under a contract with the ADHS-DBHS. The Company also provides managed behavioral healthcare services under the Contract to qualifying adults and children in Maricopa County under special funding from the House Bill 2003 tobacco litigation settlement ("HB2003"). The Company also provides managed behavioral healthcare services to capitated adults under a special Healthcare Insurance Flexibility Accounting ("HIFA II") waiver funded from excess KidsCare funding.

The original term of the Contract was three years, commencing on September 19, 1998 and continued through June 30, 2001 with two additional one-year options for renewal, both of which were executed. On July 1, 2003, there was a separate one-year contract executed with no option to renew. In February 2004, the ADHS-DBHS awarded ValueOptions a new three-year contract, effective July 1, 2004, with two additional one-year options for renewal. The Contract was subsequently assigned to the Company as described above.

2. Summary of Significant Accounting Policies

Basis of Presentation
The accompanying financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Risks and Uncertainties
The Company's business could be impacted by ongoing federal and state legislation in the areas of healthcare reform. Changes in these areas could adversely affect the Company's operations in the future. Substantially all of the revenues of the Company are generated through the Contract.

Estimation Process

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

Payable to Providers

The Company compensates providers for authorized behavioral health care and substance abuse services to covered beneficiaries. The Company uses a variety of methods to estimate the amount payable to providers including authorizations for services to be provided, payments to be made under contract arrangements currently in force, and correspondence with significant providers to ascertain the level of care being provided to beneficiaries for which a claim has not yet been submitted.

The liabilities for payable to providers include estimates of amounts due on reported claims and claims that have been incurred but were not reported as of June 30, 2005. Such liabilities represent the Company's best estimate of amounts that are reasonable and adequate to discharge the Company's obligations for claims incurred but unpaid as of June 30, 2005. Such estimates are, however, subject to a significant degree of inherent variability. Estimates are continually reviewed and adjusted as necessary as experience develops and new information becomes known; such adjustments are included in current operations. For the year ended June 30, 2005, the Company's program services expense decreased approximately $422,000 related to such revisions. Although the Company believes that the estimates of payables to providers at June 30, 2005 are appropriate in the circumstances, it is possible that the Company's actual incurred expenses will not conform to the assumptions inherent in the determination of the payable to providers; accordingly, the ultimate amounts paid may vary from the estimates included in the Company's financial statements. Such revisions are recorded when known.

Contract Revenue

The Company receives substantially all of its revenue from the Contract with the ADHS-DBHS. Contract revenues include funds for behavioral healthcare services and prevention programs for youth and seriously mentally ill ("SMI") adult and substance abuse populations under four major types of revenue sources: Title XIX, Title XXI, Non-Title XIX, and HB2003. Contract revenue is recognized in the period for which the Company is obligated to provide covered services. Deferred revenue relates to grant amounts received in the current year that cannot be recognized until certain terms are met. Contract revenue is also limited by the terms of the Contract to a maximum profit percentage, as defined. Contract revenue that cannot be recognized due to these profit limits (4% on Title XIX, Non-Title XIX, and Title XXI, and 8% on HB2003) for combined administrative expense and profit is included in accounts payable in the accompanying balance sheet.

Title XIX Revenue

The Contract with the ADHS-DBHS requires the Company to provide behavioral healthcare services to all eligible enrollees within its geographic service area. Under this agreement, the Company receives monthly capitation payments from the ADHS-DBHS based on a capitated rate and the number of Title XIX Arizona Health Care Cost Containment System ("AHCCCS") enrollees eligible for covered services during that month.

Title XXI Revenue
The Contract with the ADHS-DBHS requires the Company to provide behavioral healthcare services to all eligible enrollees within its geographic service area. Under this agreement, the Company receives monthly capitation payments from the ADHS-DBHS based on a capitated rate and the number of Title XXI AHCCCS enrollees eligible for covered services during that month.

Non-Title XIX Revenue
The Contract with the ADHS-DBHS provides for payment to the Company at a monthly rate equal to one-twelfth of specified annual contract maximums under the ADHS-DBHS Non-Title XIX programs. These programs provide behavioral healthcare services to lower income uninsured or underinsured individuals not eligible for behavioral healthcare coverage under Title XIX or Medicare. Non-Title XIX programs are funded through a combination of federal behavioral healthcare block grant funds, State of Arizona funds and Maricopa County funds administered by the ADHS-DBHS.

HB2003 Revenue
The Contract with the ADHS-DBHS requires the Company to provide behavioral healthcare services under special funding from the tobacco litigation settlement. Revenue is recognized using a percentage of completion method based on program milestones as prescribed by the ADHS-DBHS. These programs serve adults and children with serious mental illness and are to be used to provide community housing, vocational rehabilitation and other recovery support services designed to assist beneficiaries in achieving a high level of self-sufficiency and attain their desired goals. Programs related to these funds commenced January 1, 2001 and all funds for adults were required to be expended by June 30, 2005. Revenues under the HB2003 program is included in grants and other revenue in the accompanying statement of operations for the year ended June 30, 2005.

Grants and Other Revenue
Under the Contract, the Company is required to provide services under certain grants for special populations. Payment is made by the ADHS-DBHS based on expenditure reports submitted by the Company.

Program Services Expense
Program services are purchased under fee-for-service or block purchase arrangements. Fee-for-service contract expenses are accrued as incurred. Program services provided under block purchase arrangements are accrued based upon contract terms. From time to time, the Company amends its provider contracts. The effects of these amendments are recorded in the period in which the amendment was executed.

The Company provides certain services directly to consumers in various settings including case management clinics and a crisis call center. The Company records these expenses based on actual costs.

The Company receives pharmacy sales incentives from certain vendors for volume-based utilization of certain medications. These incentives are recorded when received as a reduction of program services expense.

Cash and Cash Equivalents
The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Cash equivalents consist primarily of money market funds and short-

term commercial paper. Restricted cash and cash equivalents consist primarily of cash deposits principally restricted due to unearned revenue or terms of the contract.

Premium Deficiencies
The Company records a premium deficiency reserve when expected claims payments or incurred costs, claims adjustment expenses and administration costs exceed the premiums to be collected for the remainder of a contract period. Anticipated investment income is not used as a factor in the premium deficiency reserve calculation. No such reserve was required at June 30, 2005.

Property and Equipment
Furniture and equipment are stated at cost. The Company provides for depreciation using the straight-line method over the estimated useful lives of the related assets as follows:

Computers	3 years
Furniture and fixtures	10 years
Fixed equipment	4 years
Leasehold improvements	lesser of remaining term of lease or estimated useful life

Income Taxes
The provision for income taxes is computed using the statutory rate, based on the Company's income, after giving effect to permanent differences.

Separate or unitary income tax returns are filed in the states in which FHC conducts business, including the State of Arizona. Unitary tax returns include affiliated companies whose functions are integrated and interdependent at the basic operational level and are bonded through direct or indirect ownership control.

Deferred income tax assets and liabilities relate to temporary differences between the recorded basis of assets and liabilities for financial reporting and income tax purposes. Such differences result primarily from prepaid expenses, accrued liabilities, payable to providers and depreciation.

3. Property and Equipment

Property and equipment consists of the following at June 30:

Furniture and equipment	$ 13,086,912
Leasehold improvements	868,377
Other	272,302
	14,227,591
Accumulated depreciation	(7,395,622)
Property and equipment, net	$ 6,831,969

4. Retirement Plan

The Company participates in the FHC 401(k) defined contribution employee benefit plan. The Company made contributions to the plan of approximately $701,000 for the year ended June 30, 2005.

5. Income Taxes

ValueOptions and the Company file a consolidated federal income tax return with FHC. The provision for income taxes is computed for each entity in the consolidated group. The provision for income taxes for the year ended June 30, 2005 consists of the following:

Currently payable	
Federal	$ 6,126,123
State	1,358,429
	7,484,552
Deferred income taxes	
Federal	(1,328,723)
State	(345,540)
	(1,674,263)
	$ 5,810,289

Significant components of net deferred tax assets are as follows:

Deferred tax assets	
Payable to providers	$ 96,718
Accrued liabilities	2,894,182
Deferred tax assets	2,990,900
Deferred tax liabilities	
Prepaid expenses	(255,898)
Depreciation	(205,265)
Accrued benefits	(65,786)
Deferred tax liabilities	(526,949)
Net deferred tax asset	$ 2,463,951

The deferred taxes are classified in the accompanying balance sheet as of June 30, 2005 as follows:

Current assets, net	$ 2,669,216
Noncurrent liabilities	(205,265)
	$ 2,463,951

Income tax expense reconciled to the tax computed at statutory rates is as follows:

Statutory federal income tax rate	35 %
State income taxes, net of federal benefit	5
	40 %

6. Related-Party Transactions

FHC, ValueOptions and affiliated companies provide administrative and other services to the Company, including systems functions, accounts payable and payroll processing. Certain services previously charged from affiliated companies are now provided directly by the Company. Included in general and administrative expenses is an allocation of the costs of the administrative services provided by affiliated companies. The Company's allocation was approximately $10,677,000 for the year ended June 30, 2005.

Amounts due to affiliated companies at June 30, 2005 primarily represent payroll and trade accounts payable, which are payable to ValueOptions. Amounts due to affiliated companies are non-interest bearing.

Under the provisions of the Contract with ADHS-DBHS, dividends and other distributions may be paid only to the extent of allowable profit in each of the funding sources as defined. The Company distributed $6,400,000 for the year ended June 30, 2005. These amounts did not exceed the profit maximum as defined.

The Company serves as the administrative trustee of Casa Buena, Inc. ("Casa Buena"), a non-profit 501(c)3 corporation that was the recipient of grants and contributions from the ComCare Liquidation Proceeds Trust established by the ADHS-DBHS. Various expenses are paid by the Company on behalf of Casa Buena. The members of Casa Buena's Board of Directors are employed by ValueOptions or the Company. Under the provisions of a compensation agreement, as amended, the Company is allowed an administrative fee, set at an amount of up to 8% of total expenditures by Casa Buena in any given year. The administrative fee charged by the Company for the year ended June 30, 2005 was approximately $60,000. The net amount due from Casa Buena to the Company as of June 30, 2005 was approximately $53,700.

7. Commitments and Contingencies

Leases
The Company leases office space in Arizona for its headquarters and various case management clinics. Rent expense for the year ended June 30, 2005 was approximately $4,291,000.

Aggregate future minimum payments of the Company under these leases, for the five years ending after June 30, 2005 are as follows:

Year ending June 30,	
2006	$ 6,183,515
2007	5,863,665
2008	5,565,066
2009	5,347,845
2010	2,148,977
Thereafter	44,844
	$ 25,153,912

Liability Insurance
The Company, through FHC, maintains professional and general liability insurance coverage under claims-made policies. Effective September 1, 2003, FHC is insured for losses up to $15,000,000 per claim and in the aggregate, with self-insured retentions of $1,000,000 per claim. The Company is also covered under an umbrella policy providing for professional and general liability coverage up to $10,000,000 per claim and in the aggregate.

Claims reported endorsement (tail coverage) is available if the policy is not renewed to cover claims incurred but not reported. The Company anticipates that renewal coverage will be available at expiration of the current policy. The Company participates in the above policy with its affiliates. Per claim and aggregate limits are applicable to all covered entities as a group.

Litigation
The Company is from time to time subject to claims and suits arising in the ordinary course of operations. As of June 30, 2005, the Company has reserved approximately $4,375,000 for expected losses related to these exposures.

8. Contract Requirements

The Company is subject to Contract provisions which require the Company to maintain certain financial ratios, a net worth requirement of the greater of $10,000,000 or 90% of any given month's total payments for the contract year ending June 30, and the maintenance of a performance bond equal to 110 percent of each quarter's capitation as determined by ADHS-DBHS. In satisfaction of the bond requirement, the Company maintained a performance bond in the required amount of approximately $45,168,000 as of June 30, 2005. The performance bond was renewed effective July 1, 2005.

As discussed in Note 2, the Company is limited by the terms of the Contract to profit that can be earned under the various programs. Contract profit limitations are applied on an after-tax basis. Also, if the Company's profit exceeds the profit limitations resulting in the reduction of recognized revenue, the related tax effect of that reduction is not considered for purposes of the profit limitation.

Total administrative expenses are limited by the Contract to 7.5% of contract revenue for all programs except HB2003. Combined administrative expenses and profit related to HB2003 are limited to 8% of revenue. In accordance with the Contract, income tax expense is not included as an administrative expense of the Company that is subject to this limitation. Effective July 1, 2004, the Contract limits the percentage of administrative expenses incurred outside of Arizona to 35% of total administrative expenses.

As of June 30, 2005, the Company has reported less than the minimum number of encounters as stipulated in the Contract and is subject to a potential recoupment by the ADHS-DBHS of approximately $128,000 if no more encounters are submitted. This amount has been recorded in administrative expenses as the Company expects that less than the minimum number of encounters will be submitted for Title XXI fund sources. The Company has until February 28, 2006 to submit encounters related to the year ended June 30, 2005. In addition, the ADHS-DBHS has a right to sanction the Company for other matters of non-compliance of the Contract, as determined by the ADHS-DBHS. The Company recorded approximately $700,000 (including the $128,000 discussed above) as administrative expenses for sanctions for the year ended June 30, 2005.

As discussed in Note 2, the Company entered into a new three-year contract with the ADHS-DBHS. Provisions of this new Contract subject the Company to the Office of Management and Budget's Circulars A-133 and A-122 requirements, effective July 1, 2004. The Company did not comply with certain requirements relating to the segregation of federal expenditures, monitoring of subrecipients and federal procurement, suspension and debarment policies. The Company is subject to potential sanctions for matters of noncompliance of the Contract. No amounts have been provided as of June 30, 2005 for sanctions that could result from noncompliance with these requirements.

VO of Arizona, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

	CFDA	Direct Awards	Pass-through Awards	Total Expenditures
Major Programs				
Department of Health and Human Services				
Community Mental Health Services Block Grant	93.958	$ -	$ 4,206,746	$ 4,206,746
Substance Abuse and Prevention and Treatment Block Grant	93.959	-	19,270,041	19,270,041
Department of Health and Human Services Total		-	23,476,787	23,476,787
Total Expenditures of Federal Awards		$ -	$ 23,476,787	$ 23,476,787

The accompanying notes are an integral part of this schedule

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") summarizes the expenditures of the VO of Arizona, Inc. (the "Company") under programs of the federal government for the year ended June 30, 2005. Because the Schedule presents only a portion of the operations of the Company, it is not intended to and does not present the financial position and changes in net assets of the Company.

For purposes of the Schedule, federal awards include all subawards to the Company by nonfederal organizations pursuant to federal grants, contracts and similar agreements. The awards are classified into major and nonmajor program categories in accordance with the provisions of Office of Management and Budget ("OMB") Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

2. Summary of Significant Accounting Policies for Federal Award Expenditures

Expenditures for Block Grants for Prevention and Treatment of Substance Abuse ("SAPT") are limited to allowed costs and are included in service expense for Substance Abuse, HIV, Pregnant/Parenting Women and Prevention programs to eligible members. For the period ended June 30, 2005, federal block grant funding accounted for 59% or $19,270,000 of $32,877,000 total funding received from the ADHS-DBHS for Non-Title XIX Substance Abuse and Prevention programs.

Expenditures for Block Grants for Community Mental Health Services are limited to allowed costs and are included in services expense for behavior health programs for eligible seriously mentally ill adults and children. For the year ended June 30, 2005, federal block grant funding accounted for 5% or $4,207,000 of $86,985,000 of total funding received from the ADHS-DBHS for Non-Title XIX Seriously Mentally Ill and Children's programs.

Expenditures for direct costs are accrued based on contractual arrangements with behavioral health service providers. Typically, these arrangements include both federal and non-federal funding and federal funds are assumed to be expended prior to non-federal funds.

Expenditures for awards include indirect costs which are recognized as incurred and are recorded in conformance with the Company's Cost Allocation Plan. Under the plan, indirect costs are collected in natural class cost pools and allocated to funding streams based on revenue, not to exceed the 7.5% of revenue.

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Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
VO of Arizona, Inc.

We have audited the financial statements of VO of Arizona, Inc. (the "Company") as of and for the year ended June 30, 2005, and have issued our report thereon dated September 7, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered the Company's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operations that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely effect the Company's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2005-1 and 2005-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those

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provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Arizona Department of Health Services – Division of Behavioral Health Services, the State of Arizona, federal awarding agencies and pass-through entities and the Board of Directors and management of the Company.

PricewaterhouseCoopers LLP

September 7, 2005

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Report of Independent Auditors on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

To the Board of Directors
VO of Arizona, Inc.

Compliance

We have audited the compliance of VO of Arizona, Inc. (the "Company") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The Company's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Company's compliance with those requirements.

As described in items 2005-3, 2005-4 and 2005-5, in the accompanying schedule findings and questioned costs, the Company did not comply with requirements regarding allowable costs/costs principles, procurement, suspension and debarment and subrecipient monitoring that are applicable to its federal block grants. Compliance with such requirement is necessary, in our opinion, for the Company to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Company complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

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Internal Control Over Compliance
The management of the Company is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Company's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Company's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2005-3, 2005-4 and 2005-5.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the Arizona Department of Health Services – Division of Behavioral Health Services, the State of Arizona, federal awarding agencies and pass-through entities and the Board of Directors and management of the Company.

PricewaterhouseCoopers LLP

September 7, 2005

I. Summary of Auditors' Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Reportable conditions identified that are not considered to be material weaknesses?	Yes
Noncompliance material to the financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weaknesses identified?	No
• Reportable conditions identified that are not considered to be material weaknesses?	Yes
Type of report issued on compliance for major programs:	Qualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133:	Yes

Identification of major programs:

93.958 DHHS Block Grants for Community Mental Health Services
93.959 DHHS Block Grants for Prevention and Treatment of Substance Abuse

Dollar threshold to distinguish between Type A and Type B programs:	$704,304
Auditee qualified as a low-risk auditee?	No

II. Financial Statement Findings

2005-1 FINANCIAL REPORTING: ANALYZE AND RECORD MEDICAL EXPENSE INCURRED BUT NOT REPORTED (IBNR) CLAIMS BY FUND SOURCE

Federal Programs
All federal programs

Questioned Costs
None

Criteria
OMB Circular A-133, Subpart C .300 (b) & (d)

Condition
The contract with the Arizona Department of Health Services – Division of Behavioral Health Services (the "ADHS-DBHS") (the "Contract") requires the Company to report its results of operations by individual fund source. Additionally, the Company's profit and loss corridor calculations are computed based on the profit and loss by fund source. During our audit, we noted that management had not evaluated the medical expense IBNR reserve by fund source as of June 30, 2005 which resulted in an audit adjustment to correct the estimated reserve for each fund source. This adjustment included a reduction of Non-Title XIX Child IBNR of approximately $2.6 million, resulting in an excess profit liability to the ADHS-DBHS of approximately $1.6 million.

Cause/Effect
While the Company has policies and procedures in place to analyze and record medical expense IBNR by fund source each quarter, as of the end of the fiscal year the IBNR was reviewed only at the level of total Title XIX, Title XXI and Non-Title XIX. We noted that the analysis by the Company's management in a subsequent period of the IBNR by fund source may have detected the material misstatement described above. The Company's failure to analyze and record medical expense IBNR by fund source in a timely manner resulted in misstatements to medical expense for individual fund sources, and an inaccurate calculation of the Company's compliance with the profit limitations contained in the terms of the Contract.

Recommendation
We recommend that management develop and analyze its medical expense IBNR liability by individual fund source to ensure that the medical expenses recorded in each fund source are estimated appropriately.

Management Views and Corrective Action Plan
Management's view and corrective action plan can be found on page 26 of this report.

2005-2 FINANCIAL REPORTING: ENHANCE CAPABILITIES TO ANALYZE MALPRACTICE LOSS RESERVES

Federal Programs
All federal programs

Questioned Costs
None

Criteria
OMB Circular A-133, Subpart C .300 (b) & (d)

Condition
During the procedures we performed to assess the appropriateness of management's accruals for malpractice losses, we noted the following:

- Relevant data requested by the auditors and obtained from the Company's insurance broker was incomplete
- This data had not been utilized by management to determine the appropriateness of the accrual for malpractice
- Management had not separately performed a formal analysis to calculate a reserve for incurred but not reported claims

Cause/Effect
Without proper analysis of both historical losses as well as current expectations on known claims, management's recorded estimates of reserves may not be appropriate.

Recommendation
We recommend that management consider enhancing the Finance Department's capabilities to include a skilled health and professional liabilities actuary, or consider engaging an outside firm specialized in developing reserves for these types of losses.

Management Views and Corrective Action Plan
Management's view and corrective action plan can be found on page 26 of this report.

III. Federal Awards Findings and Questioned Costs

2005-3 ALLOWABLE COSTS: SEGREGATE COSTS RELATED TO FEDERAL AWARDS

Federal Programs
All federal programs

Questioned Costs
None

Criteria
OMB Circular A-110, .21 (b)(2) & (7)
ADHS Contract, Provision Q, Financial Management #4

Condition
The Company receives non-Title XIX and XXI payments which is a mixture of federal block grant, state, county and city monies. The Company's contract with the State of Arizona (the "State") details requirements applicable to the administration of the federal block grants. These requirements include specific accounting and auditing policies and procedures that must be applied to administering the federal block grants. Furthermore, there are specific restrictions on the types of expenditures that can be incurred for the federal block grant programs.

Expenditures of federal block grant funds are not segregated and accounted for separately from expenditures of nonfederal funds in the Company's general ledger. The Company is not in compliance with specific provisions in its contract with the State requiring application of cost principles as outlined in OMB Circular A-122.

Cause/Effect
The Company's accounting system is not maintained to segregate expenditures of federal block grant funds from expenditures of nonfederal funds. Typically, the funding mechanism and the related criteria for recognizing revenue for federal grants and contracts is on a cost reimbursement basis when evidence that allowable costs have been incurred, or when evidence that eligible services were provided, have been submitted. In the case of the Company, as a pass through entity, the primary driver of revenue recognition is the contractual arrangements with behavioral health providers. Accordingly, we believe that the more important indicator of compliance is not the expenditure of allowable costs but the submittal of "encounter" reports that provides evidence that the services were provided. However, in instances where there is a purchase of capacity or where the program generates no encounter value, we acknowledge that contractual arrangement and compliance to be an acceptable alternative to the submittal of encounters. Therefore, although an instance of noncompliance results, we do not believe there is a monetary impact to the federal block grants.

Recommendation
Since the Company's contract with the State explicitly states it must comply with the cost principles applicable to not-for-profit organizations contained in OMB Circular A-122, we recommend that management segregate all expenditures associated with the federal block grants separately in its accounting system. In order to demonstrate that allowable cost principles have been complied with, the Company must develop a method of allocating costs to the federal block grants.

Management Views and Corrective Action Plan
Management's view and corrective action plan can be found on page 26 of this report.

2005-4 PROCUREMENT, SUSPENSION & DEBARMENT: DEVELOP FORMAL POLICY AND IDENTIFY ANY VENDOR SUSPENSION & DEBARMENT

Federal Programs
All federal programs

Questioned costs
None

Criteria
45 CFR 74.44
45 CFR 74.45
45 CFR 74.47

Condition
The Company currently does not have formal written procurement policies and procedures that comply with federal government A-110 requirements. We understand the majority of its procurements are for medical services (providers). Providers' contracts are normally renewed on an annual basis and as such there is no documentation with regard to the basis of contractor selection and/or justification for lack of competition. There are occasions when request for proposals or request for letters of interest may be issued for a particular service, however, there is no formal policy with regard to when these requests must be issued.

With regard to vendors and subcontractors, the Company is required by its contract with the State to only do business with entities that are licensed by the State of Arizona. As part of the State licensing process, it initially ensures that these entities have not been debarred and/or suspended by the federal government. However, the Company does not independently verify on a periodic basis that its current vendors/contractors are not debarred and/or suspended.

Cause/Effect
Compliance with A-110 requirements was a new provision in the Company's contract with the State effective for its fiscal year 2005. As such, the Company's current policies and procedures do not meet compliance with all A-110 requirements.

Recommendation
We recommend that the Company create formal policies and procedures for procurements that are in-line with federal regulations. Enforcement of these procedures should include proper authorization and the maintenance of appropriate documentation to support decisions and conclusions. Furthermore, we recommend that a control be implemented to periodically compare vendors and providers against the federal debarred/suspended list.

Management Views and Corrective Action Plan
Management's view and corrective action plan can be found on page 27 of this report.

2005-5 SUBRECIPIENT MONITORING: ANALYZE VENDOR/CONTRACTOR RELATIONSHIPS AND ENHANCE MONITORING

Federal Programs
All federal programs

Questioned Costs
None

Criteria
OMB Circular A-133, Subpart D .400 (d)
A-133, Section J(a)

Condition
Currently, the Company does not analyze its relationships with its providers to determine whether a subrecipient or vendor relationship exists. The Company monitors its providers' compliance with contract terms by reviewing encounter reports submitted by the service providers. The Company also has a provider monitoring compliance program in place that calls for various levels of monitoring including site visits, compliance reviews and training programs. The Company also includes the significant provisions of its contract with the State in its provider contracts, as required. However, the Company does not typically require A-133 audits or request A-133 reports from its providers that receive more than $500,000 in federal funding, nor does it include any language referencing A-133 requirements in its provider contracts.

Cause/Effect
Currently, the Company has no formal mechanism in place to analysis vendor/contractor relationships to determine whether a subrecipient or vendor relationship exists. As such, the Company is not in compliance with the specific A-133 subrecipient monitoring requirements.

Recommendation
We recommend that the Company perform an analysis with regard to its providers to determine whether a subrecipient or vendor relationship exists. For those providers determined to be subrecipients, we recommend that the Company implement procedures to ensure that providers are receiving A-133 audits, if required, and that the Company is requesting and obtaining copies of those reports. For those providers determined to be subrecipients, the Company should provide to the subrecipient the federal award information and applicable A-133 requirements.

Management Views and Corrective Action Plan
Management's view and corrective action plan can be found on page 27 of this report.

VALUEOPTIONS
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2005-1 FINANCIAL REPORTING: ANALYZE AND RECORD MEDICAL EXPENSE INCURRED BUT NOT REPORTED (IBNR) CLAIMS BY FUND SOURCE

Contact: VP of Finance, VO of Arizona, Inc.
Management agrees with the finding and will reinforce the existing policies and procedures related to the analysis of the incurred but not reported claims liabilities and acknowledges that the quarterly analysis of incurred but unreported claims liability was not performed as of June 30, 2005. Going forward, Management will ensure that the incurred but not reported claims liability will be reviewed by fund source on a monthly instead of quarterly basis, and that the estimation of related medical expense will occur at the fund source level. Additionally, Management will utilize the services of the actuary referred to in the comments related to finding 2005-01 to validate its approach and estimates.

2005-2 FINANCIAL REPORTING: ENHANCE CAPABILITIES TO ANALYZE MALPRACTICE LOSS RESERVES

Contact: VP of Finance, VO of Arizona, Inc.
Management has engaged in activities, including involvement of outside legal council, to assess its incurred but unreported malpractice claims liability on a quarterly basis and will formalize the documentation related to its internal analysis of that reserve.

Management agrees with the recommendation to procure the services of an actuary and is currently in the process of evaluating the costs and benefits between a full-time in-house actuary and retaining the services of an actuarial firm.

2005-3 ALLOWABLE COSTS: SEGREGATE COSTS RELATED TO FEDERAL AWARDS

Contact: VP of Finance, VO of Arizona, Inc.
Management has operationalized and accounted for the federal block grant funding with the understanding that it was considered a vendor by the ADHS/DBHS. Under that understanding, Management's position is that indirect methods of establishing expenditures and allocations are sufficient as there was no explicit requirement to comply with A-133 audit guidelines. Beginning July 2004, the ADHS/DBHS required, as a matter of contract compliance, that VO of Arizona, Inc. be subject to the requirements of an A-133 audit irrespective of ADHS/DBHS's opinion that VO of Arizona, Inc. was a vendor and not technically subject to these guidelines from the federal perspective.

While Management maintains that its obligation under federal reporting guidelines does not include being subject to many of these guidelines, it agrees with the finding as it relates to compliance with its contract with the ADHS/DBHS.

Management is currently formulating changes to its accounting for costs to provide for the explicit identification of transactions involving federal funds for medical and administrative expenditures. Further, the allocation methodologies Management uses to properly associate pooled administrative expenses with fund sources are currently being revised to ensure compliance with applicable federal guidelines as required in the VO of Arizona, Inc. contract with the ADHS/DBHS. These changes are being targeted for implementation for the period beginning November 1, 2005 and the year-to-date net effect of these changes will be recorded in that period.

VALUEOPTIONS
Putting People First

2005-4 PROCUREMENT, SUSPENSION & DEBARMENT: DEVELOP FORMAL POLICY AND IDENTIFY ANY VENDOR SUSPENSION & DEBARMENT

Contact: VP of Finance, VO of Arizona, Inc.
Management has operationalized and accounted for the federal block grant funding with the understanding that it was considered a vendor by the ADHS/DBHS. Under that understanding, Management's position is that existing procurement policies that were subject to annual review by the ADHS/DBHS are sufficient as there was no explicit requirement to comply with federal procurement audit guidelines. Beginning July 2004, the ADHS/DBHS required, as a matter of contract compliance, that VO of Arizona, Inc. be subject to the requirements of an A-133 audit irrespective of ADHS/DBHS's opinion that VO of Arizona, Inc. was a vendor and not technically subject to these guidelines from the federal perspective.

While Management maintains that its obligation under federal reporting guidelines does not include being subject to many of these guidelines, it agrees with the finding as it relates to compliance with its contract with the ADHS/DBHS.

Management will create and implement formal policies and procedures related to medical services procurement that conform to A-110 requirements.

2005-5 SUBRECIPIENT MONITORING: ANALYZE VENDOR/CONTRACTOR RELATIONSHIPS AND ENHANCE MONITORING

Contact: VP of Finance, VO of Arizona, Inc.
Management has operationalized and accounted for the federal block grant funding with the understanding that it was considered a vendor by the ADHS/DBHS. Under that understanding, Management's position is that a formal identification and notification of sub-recipient status was unnecessary; that the identification of federal cash payments to providers via confirmation letters was sufficient as there was no explicit requirement to comply with federal guidelines. Beginning July 2004, the ADHS/DBHS required, as a matter of contract compliance, that VO of Arizona, Inc. be subject to the requirements of an A-133 audit irrespective of ADHS/DBHS's opinion that VO of Arizona, Inc. was a vendor and not technically subject to these guidelines from the federal perspective.

While Management maintains that its obligation under federal reporting guidelines does not include being subject to many of these guidelines, it agrees with the finding as it relates to compliance with its contract with the ADHS/DBHS.

Management will create formal policies and procedures related to the analysis of providers to determine their status as subrecipients or vendors and provide them with appropriate federal award information and adequately monitor their compliance with federal regulations.